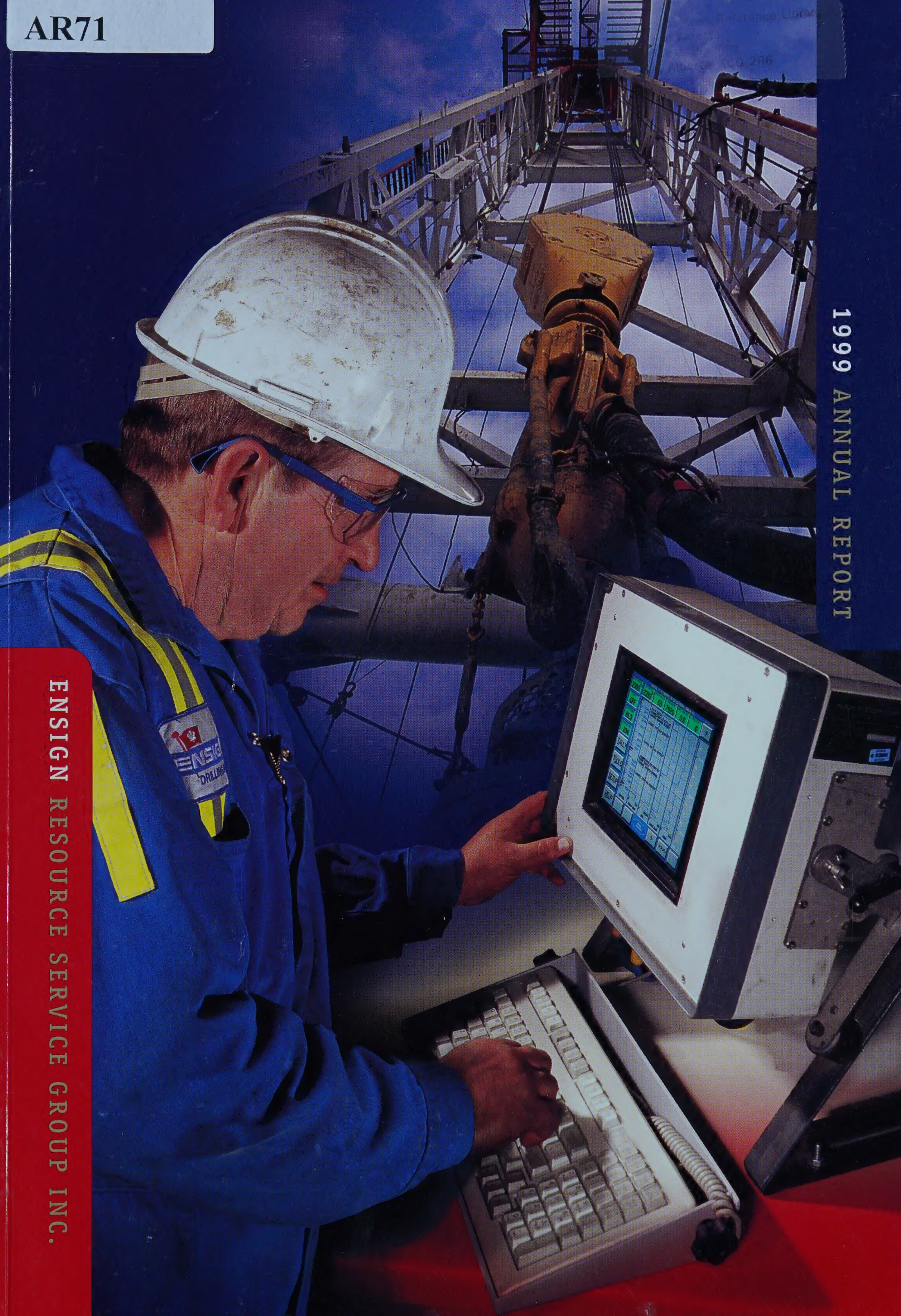
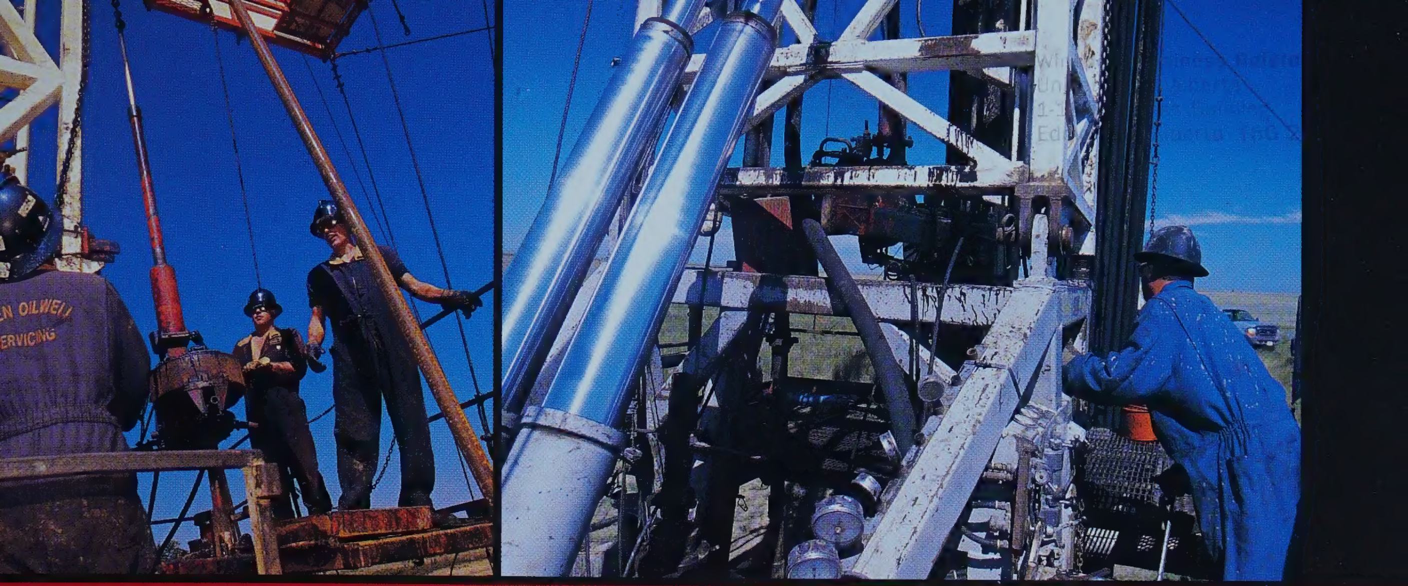


ENSIGN RESOURCE SERVICE GROUP INC.

1999 ANNUAL REPORT

CORPORATE PROFILE

Ensign Resource Service Group Inc. is an oilfield contractor that provides energy services in drilling, well servicing, manufacturing and production services to the crude oil and natural gas industry. With its headquarters in Calgary, Alberta, the Ensign Group is an industry leader in North America. Since its inception in 1987, the Ensign Group has accumulated an extensive rig fleet characterized by flexibility and mobility for meeting the challenging demands of the oil and natural gas industry. The Ensign Group has also contributed to advancements in drilling and well servicing through the innovative use of technology, and has an established reputation for the highest safety standards and environmental stewardship. Ensign Resource Service Group Inc. is the public holding company for ten divisions. Five divisions – Champion Drilling, Ensign Drilling, Tri-City Drilling, Caza Drilling Inc. and Gary Drilling Company – provide crude oil and natural gas drilling services in western Canada and the United States, and four divisions – Rockwell Servicing, Leyen Oilwell Servicing, Badge Services and Continuous Tubing – provide crude oil and natural gas well servicing services in western Canada. The Ensign Group also provides manufacturing and production services to the Canadian crude oil and natural gas industry through Opsco Energy Industries. The Company's shares are listed on The Toronto Stock Exchange under the trading symbol "ESI".



HIGHLIGHTS	1999	1998
FINANCIAL *(000s, except per share data)*		
Revenue	372,322	418,919
Cash flow	62,526	73,053
Per share	2.63	3.24
Income	29,837	48,790
Per share	1.26	2 .16
Shareholders' equity	256,769	261,901
Long-term debt, net of current portion	29,805	44,823
Average number of shares outstanding	23,750,429	22,581,627
Return on average Shareholders' equity	12.2%	23.8%
OPERATING		
Number of drilling rigs (1)	187	182
Number of well servicing rigs and coil tubing units	139	128
Wells drilled (Canada)	3,779	2,492
Wells drilled (United States)	287	332
Rig utilization rate (%)		
Drilling (Canada)	40.1	39.8
Drilling (United States)	24.0	37.6
Well servicing	44.7	45.4

(1) Excludes the 18 drilling rigs acquired as part of the purchase of Gary Drilling Company, which closed in April 2000.

NOTICE OF ANNUAL & SPECIAL MEETING

The Annual & Special Meeting of shareholders will be held on Wednesday, May 24, 2000 at 3:00 pm at the Calgary Petroleum Club, 319 - 5th Avenue S.W., Calgary, Alberta. All shareholders are invited to attend, but if unable, we request the form of proxy be signed and returned.

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Despite 1999 being a very challenging year for the oilfield services sector, the Ensign Group was able to achieve positive financial results notwithstanding a second straight year of marginal industry activity relative to the peak year of 1997.

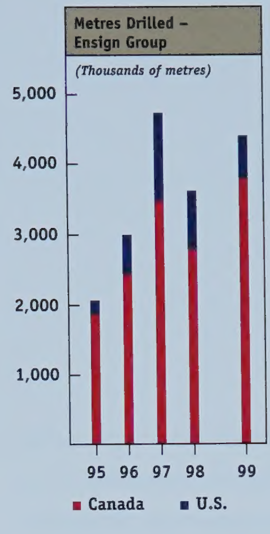
Prices for commodities, crude oil in particular, started out very low before strengthening dramatically over the course of the year, but this did not translate into a meaningful increase in exploration or development activity until late in the fourth quarter of 1999. This lag in activity can be attributed to the financial constraints our customers were under as a result of the poor commodity price environment, which carried over from 1998. Moreover, market nervousness over the stability of crude oil prices led many of our customers to defer their capital spending until late in the year. For the oilfield services sector, this resulted in both low utilization rates and, consequently, lower revenues for most of 1999.

However, the Ensign Group was well prepared for the challenging conditions of 1999. Following a significant drop-off in activity in the second quarter of 1998, our Company strengthened measures in all divisions to ensure that operating costs were tightly controlled. In 1999, we continued this strategy by ensuring that expenditures on our equipment occurred on an "as needed" basis. This cost management strategy combined with our market pricing strategy enabled the Ensign Group to maintain market share in an over-supplied oilfield services market. At the same time, we maintained a strong balance sheet and good cash position, which allowed our Company to pursue an opportunistic growth strategy and make several acquisitions during the period.

FINANCIAL RESULTS

The Ensign Group's financial results for the year ended December 31, 1999 reflect the uncertainty and reduced levels of oilfield service activity that occurred in the North American crude oil and natural gas industry during most of the year. For exploration and production companies, our customers, 1999 was a transition year in which rapidly rising crude oil prices led to substantial increases in cash flow, but no immediate increase in spending on oilfield services. The ability of the Organization of the Petroleum Exporting Countries ("OPEC") to tighten the supply of crude oil in the world market resulted in an increase in the bench mark average West Texas Intermediate crude oil price in 1999 to US$19.26 per barrel compared to an average price of US$14.43 per barrel in 1998. Natural gas prices averaged US$2.32 per mcf in 1999 compared to an average of US$2.16 per mcf in 1998 as the market came to grips with changing supply and demand fundamentals. The mild winter of 1998/99 had a negative impact on both crude oil and natural gas prices as we started the 1999 fiscal year.

During fiscal 1999, the Ensign Group generated revenue of $372.3 million compared to $418.9 million in 1998. Cash flow totalled $62.5 million ($2.63 per share) in 1999 compared to cash flow of $73.1 million ($3.24 per share) in 1998. Net income decreased to $29.8 million ($1.26 per share) compared to $48.8 million ($2.16 per share) in 1998. In terms of our operating results, our Canadian drilling divisions, Champion Drilling, Ensign Drilling and Tri-City Drilling, drilled a combined total of 3,779 wells in Canada in 1999, representing a 33 percent increase over the 2,852 wells drilled by the Ensign Group in Canada in 1998. The majority of our increase on a year-over-year basis relates to a larger Canadian rig fleet resulting from our acquisition of Artisan Corporation in May 1998. Additionally, much of the activity in 1999 was focused on the drilling of shallow natural gas wells, primarily in southern Alberta. This is reflected in our activity mix in 1999, which was split 65 percent natural gas and 35 percent crude oil, the inverse to historic norms for the industry. Utilization rates for our Canadian drilling divisions remained flat at 40 percent for 1999 and 1998. Caza Drilling Inc., our United States drilling division, had a utilization rate of 24 percent in 1999 as the United States land-based drilling industry experienced an all-time historical low. In 1998, Caza Drilling Inc. had a utilization rate of 38 percent. Our well servicing divisions, Badge Services, Continuous Tubing, Leyen Oilwell Servicing and Rockwell Servicing, recorded overall equipment utilization rates that were also lower in 1999 as a result of the reduced level of oilfield service activity in the Canadian crude oil and natural gas industry. Similar reductions in activity on a year-over-year basis were recorded by our manufacturing and production services division, Opsco Energy Industries. In spite of reduced levels of activity, all divisions of the Ensign Group generated positive income and cash flow in 1999.



PROVEN STRENGTHS

The Ensign Group has consistently achieved positive financial results, throughout a variety of industry cycles, by adhering to a strictly-defined corporate strategy. Our strategy has a dual focus: to achieve an acceptable return on our investment and to optimize our margins in all operating areas. This dual-focus, along with our uncompromising concern for a safe operation, drives every decision we make. It also serves as the foundation upon which we have built our core strengths. These fundamental strengths consist of a diverse base of operations, a deep commitment to safety and customer service, an opportunistic growth strategy and a focus on consistent financial discipline.

[1] *Diverse Base of Operations*

As one of the largest oilfield service companies in North America, the Ensign Group is represented in all major crude oil and natural gas producing areas of the Western Canadian Sedimentary Basin, the Rocky Mountain region of the United States and most recently in California, with our acquisition of Gary Drilling Company. With this geographic diversification, the Ensign Group is able to offer value-added services to a broad market and provide our customers with the expertise to identify and apply new technologies that may enhance customer operating results.

The Ensign Group is currently the third largest land-based crude oil and natural gas drilling contractor in North America, operating a total of 205 drilling rigs, including 64 rigs in the United States. We are also the third largest well servicing contractor in Canada with 127 well servicing rigs and 13 coiled tubing units. In addition, our assets include 26 production testing units, 24 wireline units, eight underbalanced drilling packages and a manufacturing facility.

[2] *Commitment to Safety and Customer Service*

A strong emphasis on safety is not only good business, it is the morally responsible thing to do. Our managers are charged with the task of ensuring that all employees of the Ensign Group understand that safety is a core value within our organization. We believe that it is possible to run all operations without hurting people and damaging equipment or the environment. In an industry subject to extreme swings in activity levels, the constant challenge is to ensure that our employees receive proper orientation, instruction and training on defensive driving, safe work practices, health and safety standards/laws, correct use of personal protective equipment and risk assessment techniques. It is our belief that a safe operation is a quality operation and, as such, provides for improved levels of service to our customers.

Ultimately, the satisfaction of our customers drives the success of the Ensign Group and we remain committed to providing exceptional value and service. We continue to build relationships with our customers by creating and nurturing alliances and developing pricing structures that work for

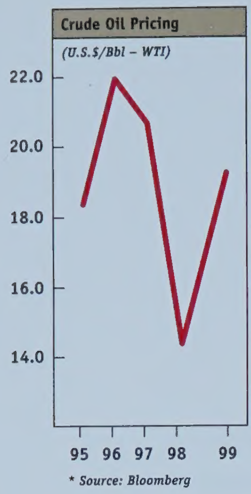
their individual needs. Our United States drilling division, for example, has developed valuable drilling knowledge in specific areas throughout the Rocky Mountain region, allowing it to accept additional risk and derive higher returns through added value footage or turnkey contracts.

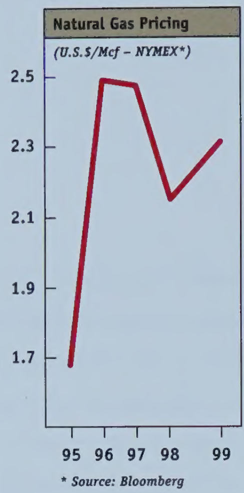
The quality of our assets is also an important factor in ensuring our customers' satisfaction. A detailed preventative maintenance program and the industry's highest equipment certification standards, as well as adherence to safety standards and policies that continue to evolve to higher levels, assures our customers that they will experience minimal interruption due to injuries or equipment deficiencies. In addition, our broad operating base allows us to offer our customers the opportunity to maximize access to equipment and minimize mobilization costs because our equipment is often located in close proximity to their operational sites.

3 *Opportunistic Growth Strategy*

At the Ensign Group, we take an "opportunistic" approach towards acquisitions and growth. However, this approach is not about pursuing growth for the sake of growth. Rather, it means that any acquisition we undertake must build shareholder value by providing a positive return on investment, strengthening our leadership position and enhancing our level of customer service. Additionally, our managed approach to growth ensures that we do not grow at the expense of existing operations. We ensure that our core business remains in focus.

In 1999, we utilized our strong balance sheet and good cash position to undertake several acquisitions. These acquisitions delivered value to the Ensign Group in the form of new technology, an expansion into a new geographic region and the addition of highly skilled people. For example, our acquisition of the assets of ICE Drilling Systems Inc. of Red Deer, Alberta – consisting of eight underbalanced drilling systems – allowed us to become a dominant player in this niche market sector. As well, our acquisition of 11 well servicing rigs from Badge Services Ltd. of Estevan, Saskatchewan has enabled us to expand our well servicing operations into southeast Saskatchewan, a major production area of light crude oil. Additionally, we added five drilling rigs in three separate transactions late in the year to enable us to meet the increase in demand for drilling services in Canada in the winter of 1999/2000 and beyond. Subsequent to the year-end, the Company acquired Gary Drilling Company, a private drilling contractor based in Bakersfield, California. The addition of Gary Drilling and its fleet of 18 drilling rigs expands the Ensign Group's United States drilling fleet to a total of 64 drilling rigs.





Moving forward, we will continue to look for acquisition opportunities within Canada and the United States. Indeed, we believe there are excellent opportunities for continued consolidation or market expansion to achieve greater representation in our core North American markets. However, we are not limiting our interest to North America. We recognize that to continue growing, the Ensign Group must look beyond its traditional markets for new opportunities. While we have no immediate plans to move to the international arena, we are confident that given the right circumstances, we have the management strength and expertise to succeed on this front.

4 *Consistent Financial Discipline*

Financial discipline is another core strength of the Ensign Group. During industry downturns, our ability to effectively control costs has allowed our Company to maintain a strong balance sheet and remain profitable. In the low utilization rate environment of 1998 and 1999, we curbed our fixed costs by identifying and parking surplus equipment and deferring discretionary spending. Our United States drilling division, which operated in an environment of historically low levels of oilfield service activity, proved the success of this strategy, as it maintained positive income and cash flow in 1999 despite utilization rates below 25 percent. Of course, our people are our most important asset and we strive to manage our workforce effectively and considerately. By using creative employment strategies such as work sharing for salaried employees, we avoided job losses due to layoffs over the past two years.

OPPORTUNITIES AND OUTLOOK

The Ensign Group's activity levels and performance depend on general industry conditions, which are directly impacted by oil and natural gas commodity prices. Based on current pricing assumptions, we are anticipating a significant increase in activity in 2000 compared to the level of oilfield service activity in 1999. The Canadian Association of Oilwell Drilling Contractors forecasts that approximately 14,500 wells will be drilled in Canada in 2000, a nearly 37

percent increase from the 10,605 wells drilled in 1999. In the United States, continuing strong natural gas prices are expected to spur a significant improvement in activity in 2000 compared to 1999, a year that saw land-based drilling activity at 50-year lows.

In the first quarter of 2000, our Canadian drilling rigs attained a utilization of 72.7 percent. While the first quarter is typically the busiest period for Canadian drilling activity as certain areas are accessible only a few months of the year, the outlook for the remainder of the year is bright with bookings for equipment running near all time high summer levels. Due to OPEC's resolve to ensure the continued strength of commodity prices for crude oil, it is expected that there will be an increased emphasis on oil drilling in 2000, especially in heavy oil areas such as central Alberta. As well, the favorable pricing environment is expected to put pressure on companies to improve their production rates, increasing the demand for well servicing. On the natural gas side, commodity prices are also expected to remain strong, which will generate steady activity throughout 2000. The result of this increased activity will lead to year-over-year improvements in utilization rates and higher margins for the Ensign Group in both Canada and the United States.

The Ensign Group is well positioned to benefit from the forecasted upswing in industry activity in 2000. Our geographic diversification combined with our expanded level of oilfield services will allow us to maximize growth in all industry sectors. Further, our strong balance sheet and proven financial strength will enable us to continue to take advantage of growth opportunities as they arise. As in the past, we will maintain a strict control on costs along with a value and customer focused marketing program, thereby enabling us to continue to achieve additional growth in shareholder value.

In 2000, we will continue our efforts to improve all areas of our operations. Underscoring this effort will be a relentless focus on the part of all of our staff members to provide an exceptional level of service to our valued customers in a safe and environmentally friendly manner. We would like to thank our employees for their dedication and commitment to ensuring our success as a company. We are confident that with their continued commitment, we will remain an industry leader for years to come.

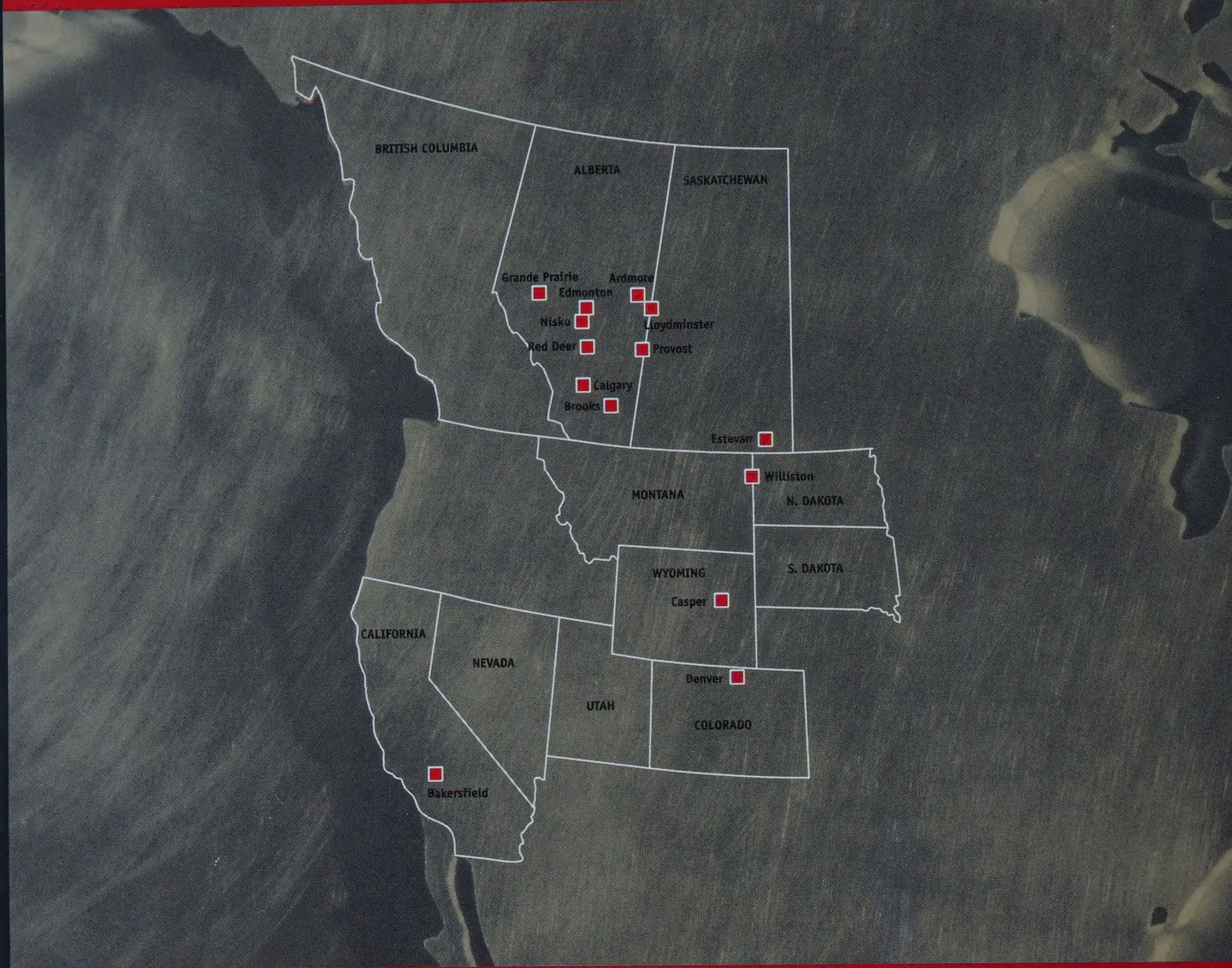
On behalf of the Board of Directors,

N. Murray Edwards
Chairman

Selby Porter
President

April 14, 2000

AREAS OF OPERATION



OUR NORTH AMERICAN ENERGY SERVICES

CANADIAN OILFIELD SERVICES

CONTRACT DRILLING

Champion Drilling
Ensign Drilling
Tri-City Drilling

WELL SERVICING

Badge Services
Continuous Tubing
Leyen Oilwell Servicing
Rockwell Servicing

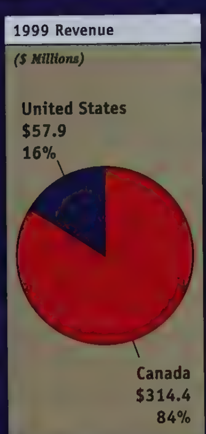
MANUFACTURING and PRODUCTION SERVICES

Opsco Energy Industries

UNITED STATES
OILFIELD SERVICES

CONTRACT DRILLING

Caza Drilling Inc.
Gary Drilling Company



Strategy for Consistent Growth

Our ability to deliver positive financial results in a year of relatively depressed industry activity is largely due to our underlying financial and operating strength that we have built over many years. There are four strengths that we count as key to our sustained growth in a cyclical industry. They include:

Our diverse operating base in North America

where we have grown to be the third largest land-based drilling contractor in North America and the third largest well servicing contractor in Canada;

Our commitment to safety and the environment

through ongoing training and establishing procedures that yield above average performance;

Our opportunistic approach to growth

whereby we ensure that we have the operational and financial strength to take advantage of acquisition opportunities;

Our consistent financial discipline

which allows us to control costs and optimize profitability through various phases of a cyclical industry.

Kenneth Omdahl
Brian Dixon
Daryl Brown
Darcy Hildenbrand
Dave Clark
Norm Reid
Reath Zanidean
Bruce Moyes
Glenn Stewart
Richard Nobert
Russ Beckley
Duaine Murphy
Bonnie Abel
Charley Brewer
Dale Kurek
John Burback
John McCain
Reid Paulson
Brian Steeves
Manfred Behnke
Richard Vandebon
David Tippins
Brian Watts
Chris Pawloski
Dale Vivian
Donald Wagner
Richard Macpherson
William McClure
Mark Kordus
Brandon Mykytiw
Terry Paterson
Robert Cardinal
Marcel Yurchak
Alvin Musty
Andy Smith
Barry Stevens
Craig Benson
Don Hachey
Edwin Blondin
George Irvin
Jim Tomlinson
Lorne Oja
Louise La Rue
Moriah Mendenhall
Nancy Knourek
Randy Schatz
Richard Doll
Ronald Haimila
Wesley Allen

Cindy Hames
Daniel Welschmeyer
Dennis Hansen
Frank Amos
James Jenkins
John Bonell
Kelly Prang
Nicholas Malansky
Rod Orange
Bryan Toth
Shannon Mundy
Warren McCutchan
Bart Elchuk
Cheryl Payne
Doug Hartfield
Edwin Mattie
James Barclay
Kevin Parasiuk
La Donna Johnson
Lorne Somers
Rodney Wirth
Travis Nelson
Walter Hopf
David Eggenberg
Barry Fediuk
Bob Mattson
Ed McCormick
Gerry Stone
Jason Pretty
Julia Hawes
Kelly Nicholson
Leroy Pasmeny
Melvin Bullinger
Mike Heidt
Mike Henderson
Norm Caron
Paul Burke
Perry Jundt
Ric Pinkerton
Sindi Schornagel
Terry Ellis
Todd Weiss
Arnet Pachal
Bob Gow
Bruce McGregor
Carolyn Freeman
Charles Smith
Charles Storle
Charlotte Kanavich

Cory Riguidel
Dave Ritchie
Eugene Edelmann
Gord Riguidel
James Bunker
John Cusanelli
Karen Hyde
Larry Janz
Larry Ryan
Lorin Rattai
Lyle Prosser
Marie Fisher
Mark Nugara
Peter McMillan
Randy Much
Robert Jensen
Shawn Rondeau
Terry Green
Teryl Aide
Brian Vandenbrink
David Ames
David Dornian
Denis Carriere
Edward Kautz
Eric Skrove
Helen Cardon
Karl Reeves
Ken McInnis
Laurie Mcmann
Lois Jehn
Matt Harding
Ron Pettapiece
Ryan Hildenbrand
Trent Tornquist
Wade Paton
Blaine Sweet
Brian Bartlett
Cherilyn Jensen
Craig Londsdale
Daniel Hochachka
Darek Cookman
Gary Short
George Chakmakian
Jason Hoffman
Jerry Mehler
Karen Keene
Laurier Carriere
Lynne Bachand
Milan Savich

Norman Regehr
Ron Meyer
Rusty Mingo
Selby Porter
Tracy Sawatzky
Vern McKinnon
Walter Perrin
Wayne Brenner
Wendy Schneider
Arnold Kessel
Brad Hadfield
Brian Mohr
Byron Jupe
Dave Honch
Dave Pietrzykowski
David Blakeney
Derrick Sparks
Earle Routly
Edgar Cummins
Elsa Mata
Everette Waddy
Hien Huynh
Howard Savage
Jeff Brant
Karren Kaiser
Larry Gates
Leon Beaudoin
Michelle Bond
Randall Phipps
Ronnie Rosson
Ryan Cross
Scott Claussen
Sherry Humphrey
Donald Fogle
Bill Lewis
Calvin Johner
Carrie Anderson
Dave Steidel
David Pilipchuk
Dean Vigna
Donat Benoit
Edward Marty
Evanne Rowland
Gary Bennett
Gerry Groenen
Harvey Danyluk
Henry Kessel
Jannette Collins
Joe Thompson

John Calbarry
Keith Delaney
Kevin Johnson
Kim Getz
Matt Schmitz
O. Lee Kane
Patrick Renauld
Peri Kimber
Robert Hunt
Russell Spotts
Sandrea Bullman
Wayde Barker
Allen Ingram
Bernard Sterling
Bernie Nedelec
Colleen Kjolberg
David Devins
Derrick Warren
Ian Craig
Jim Brooks
Jacqueline Wald
Judy Selby
Julie Beggs
Kevin Stromberg
Mathew Dowdy
Jim Campbell
Peter Potratz
Randy Peterson
Richard Terrell
Roger Pike
Susan Jones
Ted Nelson
Wayne Kipp
Wayne Toth
William Ward
Ashraf Rajabali
Blake Prosavich
Craig Delaney
David Jackson
Errick Warren
Gerard Dirk
Glen Dembicki
Ian Graham
Ian Nichols
Jason Pollom
Jim Beckly
Keith Goodheart
Kurt Voll
Lloyd Huber

Donald Thomas
Lorraine Setla
Melvin Curtis
Michael Milford
Richard Waring
Rodger Field
Scott Guthre
Steffany Kittlitz
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Verloys Honeycutt
Bill Oman
Chris Mielnik
Conlie Wilk
Darren Johnson
Dennis Juska
Derrick McClelland
Jason Dirk
Jason Hager
Jeffrey Roper
John Montgomery
Joy Kowatch
Ken Lustig
Kirby Prosavich
Larry Lorenz
Laureen Hagg
Lloyd Lewis
Marlyce Springer
Mary Dunmire
Mike McMullan
Mitch Maclean
Richard Simonton
Robert Gallant
Ron Kalika
Stuart Kaip
Tanya Boyce
Terry Wasyluk
Timothy Nicholson
Travis Thacker
Wendy Henderson
Barry Pryce
Bruce Ehlke
Charles Juurlink
David Dodd
Emil Wark
Jody Trembecki
Joe Brlekovich
Judy Krack
Karen Allarie
Kent Johner
Larry Vilaverde
Michael Matson
Mike Noade
Paul Nykiforuk
Perry Joynt
Teresa Hamilton
Terry McAmmond
Trudy Spohr
Ben King
Brett Taylor
Carol Kwong
Corey Carty
Dean Ulmer
Don Drul
Eugenie Stupka
Greg Pukas
James McCathron

Jeffrey Hallwachs
Jeffrey Kaiser
Jim Stevenson
John Czurka
Mike Alford
Ron Smith
Wayne Franke
Amos Volk
Art Brunet
Brad Beckley
Brian Crossman
Carl Nelson
Chris Klien
Dale Doering
Dale Thompson
Darwin Dean
Dave Surridge
Ed Taylor
Garth Wilson
James McManigal
Jennifer Garner-
Jimenez
Jennifer Larson
Julie Craig
Larry Knudsen
Leon Purvis
Linda Brooker
Michael Hale
Murray Dube
Randy Kennedy
Richard Vanskiver
Rock Rasmussen
Alvin Pyle
Bernice Dunham
Boyd Doll
Dana Jones
Dave Green
Edward Holman
Gene Gaz
Grant Clearwater
Helmut Stubenvol
John Larkin
Katrina Lefebvre
Ken Krochak
Len Minor
Richard Fleming
Ronald Kavathas
Ronald Veres
Scott Mink
Stan Veres
Teresa Hauser
Tracey Sweeney
Brian Arneson
Carole Chaisson
Clay Bradley
Dale Leitner
Denise Taylor
Everette Coughlin
Gerald Armstrong
Gerry Beaupre
Greg Rudolph
Harry Shaw
James Monroe
Jerry Case
Joe Hemsing
John England

Ken Smiley
Kirk Schroter
Leander Durand
Lee Edwards
Lewis Gentry
Miles Kosteriva
Phil Moore
Ralph Cock
Richard Poitras
Ronald Halladay
Roy Klemola
Steven Sargeant
Barney Eggenberg
Brian Aman
Charlene Linford
Danny Gamboa
Darrell Robertson
Dion Sperling
Donna Conley
Gabriela Liberty
Randy Middaugh
Hank Van Drunen
Hugh Giberson
James Ryan
Jody Schuler
John Gross
Kenneth Dyrland
Lance Schenkey
Linda Lekic
Michael Nuss
Richard Klyne
Roger Highfill
Sheldon Jasper
Tony Janz
Wayne Harwood
Allan Kulczycki
Beth MacEachern
Darren Lutz
Dennis Enns
Glen Steffler
James Thul
Jason Randall
Linda Wright
Marvin Gideon
Richard Christian
Richard Thingstad
Rick Vanee
Scott Campbell
Scott Marshall
Sheri Trach
Ted Waldner
Tracie Janke
Wayne Lawson
Wayne Olson
Yvonne Covey
Abe Shihinski
Barry Dean Pasos
Bill Phillips
Darryl Maser
David Gjovig
Douglas Lane
Glenn Dagenais
Gregory Page
Joan Pearce
Keith Mattson
Kirk Dukett

Luvell Williams
Lyle Aubin
Lyle Wood
Martin Storos
Mike Erikson
Mike Hache
Nicole Mueller
Randy Reschke
Richard Mann
Rob Wilman
Tim Smith
Troy Azlin
Troy Ehrler
Vince Dembicki
Colin Stallnecht
Craig Schad
Dale Sutherland
Darwin Kinshella
David Fenerty
Deryk Law
Fred Steward
George Woodall
Herb McAleenan
Jean Beaudoin
Joe Tucker
Ken Coughlin
Matthew Vaughn
Michael Hamilton
Mike Murphy
Patricia De Paoli
Paul Fitton
R.J. Toth
Richard George Jr.
Rick Lee
Robert Dear
Scott Parish
Steven Davis
Tara Wright
Todd Fritz
Vernon Dornian
Wayne Zandee
William Myers
Bob Zanusso
David Harding
Dawn Strazza
Douglas Peterson
Jim Fixlynn
Sandra McCallum
Tom Fellows
Victor Lentz
Alan Metz
Barry Schultz
Cameron Ball
Claud Collins
Craig Barker
Dave Fyhn
David Morgan
Dean McNally
Douglas Houseman
Gary Green
Herbert Romine Jr.
William French
Jeff Salen
John Arnesson
Kevin Lestrat
Kevin Rudell

Matt Moffatt
Paul Illerbrun
Rene Garton
Steven Haugland
Tim Christian
Tom McDonald
Allan Bennett
Cindi Havens
Guy Gaudreault
John Charleton
Lorne Levsen
Paul Meade-Clift
Robert Hawkes
Shawn McConaghie
Steve Gillett
Thomas Schledwitz
Tommy Atkison
Trent Peddle
Barren Graham
Billy Nelms
Bob Geddes
Bobbi Beauchamp
Brian Baron
Buzz Bradley
Danny James
Darren Tobler
Duane Bright
Dwayne Swan
Gordy Torgeson
James Collins
James Rice
Joan Dunlop
Jody Keen
Les Moore
Lorette Bain
Lyndon Irving
Michael Muir
Michelle Singer
Nola Omdahl
Peter Nykiforuk
Rich Bowie
Rick Gosse
Robert Mooney
Roger Snider
Sara Rattigan
Shad Lundquist
Stephen Hunt
Thomas Williamson
Tom Medvedic
Wade Benson
Al Gray
Al LaPointe
Darla Leslie
Dave Gent
Doug Zimmer
Florin Hategan
Janet Ingram
John Sidor
Leslie Blankenship
Martin Timmons
Orrin Bliss
Russell Messer
Travis Hagglund
Vern Machuik
William George
(and many more)

At Ensign, safety is not just a philosophy,

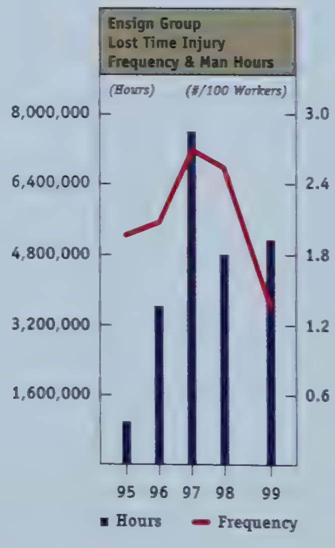
it's part of everything we do. We recognize the responsibility for worker safety and require all our divisions to operate according to the Petroleum Industry Guiding Principles.

Our goal is to protect our people, our customers, our property, the public and the environment from injury, damage or loss. We believe that health and safety is everyone's responsibility, resting with all levels of our management and employees including subcontractors.

SAFETY

With diverse operations in locations throughout western Canada, the Rocky Mountain region of the United States and California, the Ensign Group pays particular attention to the development and maintenance of standardized safety procedures that are followed across all divisions. In order to ensure our people and equipment meet applicable regulatory and safety requirements, the Ensign Group strives for the highest standards in safety.

Staff training is a key component of our safety program. The Ensign Group's team of safety professionals are responsible for ensuring that the Company's health, safety and environmental standards are continuously reviewed and adhered to by all



employees at all levels. Our internal training programs cover job-specific safety procedures as well as general workplace safety knowledge and practice. For example, rig managers, who are responsible for health and safety at their work-site, receive regular training updates and reviews on key safety issues and concerns. Specific safety conferences are also held annually for rig managers and senior drillers.

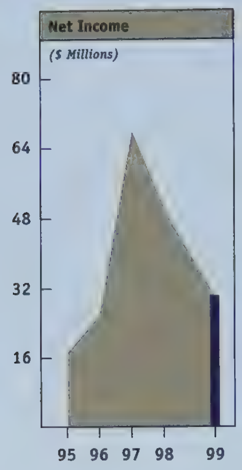
Safety regulations, procedures and training programs are developed and revised based on annual safety audits which evaluate organizational safety management systems in six areas: corporate leadership, operations, human resources, facilities and services, administration, and health and safety information and promotions. These audits assist our safety personnel in identifying best practices and in turn, implement optimal standards. The Ensign Group's safety team conducts regular field visits to inspect equipment and procedures, provide additional training and recommend equipment maintenance as required.

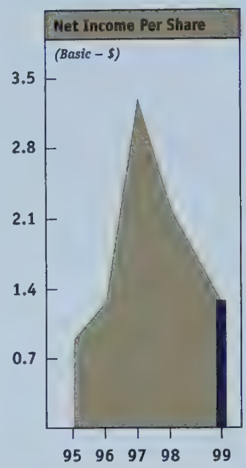
Our ongoing annual audits have given our field employees and senior managers the performance feedback needed to develop a mature, modern approach to managing safety. We have progressed from the traditional approach of inspecting work site equipment through to the modern approach of looking closely at what our field staff does on a day-to-day basis, and correcting unsafe habits that lead to accidents and injuries. Our feedback system ensures that safe work behaviors are rewarded and reinforced while unsafe practices are identified and corrected. In this manner, we are building a workforce that is responsible and competent. This approach has led to a significant downward trend in injuries throughout the Ensign group of companies.

Maturity of Safety Approach over Time

ENVIRONMENT

As with our safety standards, the Ensign Group's stringent environmental policies and procedures have been implemented across all of our operating divisions. We are specifically committed to reducing, reusing, recycling and reclaiming materials resulting from the waste generated by our operations. To this end, all drilling and well servicing rig managers have completed waste and environmental management training. Rig crews are trained in the transportation and disposal of hazardous materials and dangerous goods. The Company's environmental standards for oilfield waste management are posted at all rig sites to keep environmental awareness and procedures at the forefront of the minds of our rig crews.





This Management's Discussion and Analysis for Ensign Resource Service Group Inc. (the "Company" or the "Ensign Group") and all of its subsidiaries is supplemental to the consolidated financial statements and related notes contained in the Company's 1999 Annual Report. The consolidated financial statements for the year ended December 31, 1999 were prepared in accordance with accounting principles generally accepted in Canada.

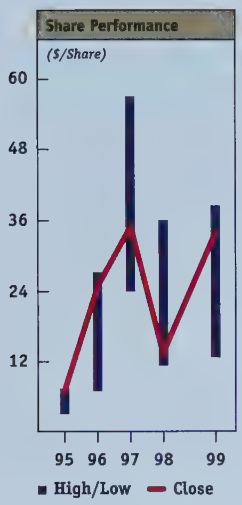
Overview

Fiscal 1999 was a challenging year for all oilfield service companies, including the Ensign Group. The demand for the services provided by the Company is largely dependent on the prevailing market prices for crude oil and natural gas. The deterioration of commodity prices during 1998 and early 1999 significantly influenced the 1999 capital budgets of the Company's customers. Consequently, crude oil and natural gas production companies cancelled or delayed drilling projects which resulted in sluggish drilling activity levels and a decrease in the Ensign Group's operating revenues compared to fiscal 1998. Through proper budgeting and planning, and a commitment to cost control and efficient operations, the Company was prepared for the reduction in activity in 1999 and as a result was able to provide positive returns to shareholders. With the resurgence of commodity prices during late 1999 and the expectation for improved levels of oil and natural gas commodity prices to continue throughout 2000, the Ensign Group is well positioned to benefit from recovery in industry activity and revenue rates.

Consolidated Results

Consolidated net income was $29.8 million, or $1.26 per share in 1999, compared to $48.8 million, or $2.16 per share in 1998. Cash flow before changes in non-cash working capital was $62.5 million, or $2.63 per share in 1999, compared to $73.1 million, or $3.24 per share in 1998. Consolidated revenues fell 11 percent from $418.9 million in 1998 to $372.3 million in 1999. The decreases from 1998 reflect the reduction in industry activity and downward pressure on revenue rates resulting from the collapse of crude oil and natural gas prices during 1998 and the first part of 1999.

Return on average shareholders' equity in 1999 was 12.2 percent, compared to 23.8 percent in 1998, reflecting the stagnant state of the industry for the majority of 1999. The increase in activity during the latter part of 1999, caused by the strengthening of commodity prices, was reflected in the improvement in the Company's share price. During the past five years, the Company's share price has



increased from a low of $3.00 in 1995 to a high of $57.00 in 1997. Since 1997, the collapse in commodity prices and the resulting decrease in activity levels contributed to the Company's share price falling to a low of $11.50 in 1998, before recovering to a closing price of $33.50 at December 31, 1999.

Review of Operations

The Ensign Group's operations are concentrated in two market segments, Canadian and United States oilfield services. The Company's Canadian oilfield service operations comprise land based contract drilling, well servicing and the provision of manufacturing and production services to the crude oil and natural gas industry. The Company's United States operations were focused on land based contract drilling in the Rocky Mountain region in 1999 and 1998.

CANADIAN OILFIELD SERVICES

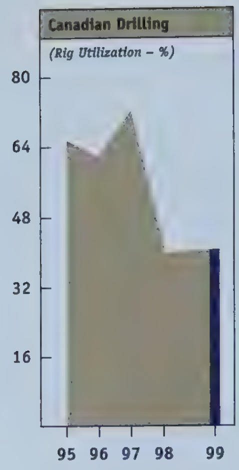
The Ensign Group is Canada's second largest land based drilling contractor and third largest well servicing contractor. With three drilling divisions and its well servicing partnership, the Ensign Group operates in every crude oil and natural gas producing area in the Western Canadian Sedimentary Basin ("WCSB"). The Company is capable of providing innovative drilling and well servicing solutions that meet the diverse requirements of its energy industry customers.

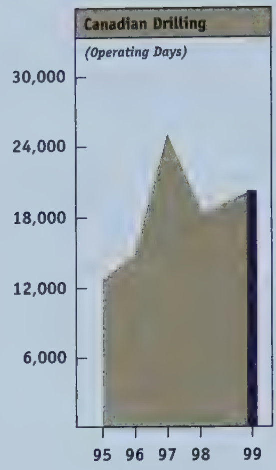
Contract Drilling

The Ensign Group's Canadian drilling fleet of 141 rigs is operated through three separate divisions: Ensign Drilling – based out of Nisku, Alberta; Tri-City Drilling – based out of Edmonton, Alberta; and Champion Drilling – based out of Brooks, Alberta. The Company's Canadian drilling rig fleet offers customers both quality and flexibility, and encompasses the complete spectrum of crude oil and natural gas drilling depths – from approximately 500 metres (1,600 feet) to 6,000 metres (20,000 feet). The drilling rig fleet is highly mobile and allows customers the opportunity to take advantage of horizontal and underbalanced drilling technology, slant drilling, horizontal re-entry of existing wells as well as other technologies.

RIG DEPTH CAPABILITIES

Depth (metres)	*Ensign*	*Tri-City*	*Champion*	*Total*	*% of Fleet*
0 - 1,000	*2*	*1*	*3*	*6*	*4%*
1,001 - 2,000	*20*	*18*	*14*	*52*	*37%*
2,001 - 3,000	*43*	*16*	*8*	*67*	*48%*
3,001 - 4,000	*13*	–	–	*13*	*9%*
4,001 - 5,000	*1*	–	–	*1*	*1%*
5,001 +	*2*	–	–	*2*	*1%*
Total	*81*	*35*	*25*	*141*	*100%*





The Ensign Drilling division is an established leader in the provision of specialty drilling services. Of the 81 drilling rigs now operated in this division, over 60 are capable of operating in the horizontal drilling market, including the provision of under-balanced and horizontal re-entry services. During 1999, the Ensign Drilling division increased its rig fleet from 76 to 81 drilling rigs through the acquisition of two rigs from Double Eagle Drilling Ltd. in September, two rigs from Ivanhoe Energy Inc. in November and one rig from Slate Drilling Ltd. in December. During 1999, this division drilled 1,293 wells, an increase of 36 percent over the 950 wells drilled in 1998. Utilization in 1999 was 36.3 percent compared to 40.8 percent in 1998.

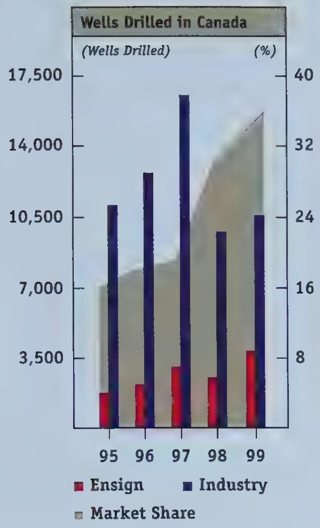
Tri-City Drilling, through its fleet of 35 drilling rigs, specializes in shallow and intermediate depth wells and operates primarily in northern and central Alberta. During 1999, this division drilled 824 wells, an increase of 13 percent from 731 wells drilled in 1998. Tri-City's utilization rate of 42.6 percent compares favorably to a utilization rate of 40.5 percent in 1998.

Champion Drilling became part of the Ensign Group in May 1998 through the acquisition of Artisan Corporation. Champion provides the Ensign Group with the resources to operate in the southern Alberta region of the WCSB. Champion, with its 25 drilling rigs, specializes in the drilling of shallow natural gas wells. During 1999, Champion drilled 1,662 wells and had a utilization rate of 48.5 percent. These figures compare favourably to 1,171 wells drilled and a utilization rate of 35.5 percent in 1998.

The Ensign Group takes great pride in its in-house technical and engineering expertise. The Company maintains a competitive advantage in its ability to offer customers the expertise needed to drill all types of crude oil and natural gas wells. Fundamental to the Company's ongoing success as a drilling contractor is an ability to respond quickly to customers' needs. With a variety of drilling rigs situated across a broad geographic base, the Ensign Group can provide its customers with a rig that meets their immediate needs from a location that is already close to their operations, thereby minimizing rig moving costs.

Throughout its 10-year history, the Ensign Group has developed a solid understanding of market conditions and has determined pricing strategies that offer its customers the best value throughout all energy cycles. It is this commitment to consistent and fair pricing that has allowed the Ensign Group to build strong, long-term customer relationships.

Through the merger with Artisan Corporation in May 1998, and by leveraging its in-house expertise, fair pricing structure and superior safety record, the Ensign Group strengthened its market share in Canada during 1999. There were 10,605 wells drilled in the WCSB in 1999, 861 more than in 1998.



The Company's Canadian drilling divisions drilled 3,779 of these total wells, representing 3.8 million metres, or a 36 percent market share. This compares to the Company's 1998 Canadian drilling activity of 2,852 wells and 2.8 million metres, which represented a 29 percent market share. The average rig utilization rate for the Ensign Group's Canadian drilling divisions in 1999 reached 40.1 percent, a slight increase from the 39.8 percent rate achieved in 1998.

With the addition of five rigs during 1999, the Company's Canadian drilling rig fleet now includes 36 triples, 82 doubles and 23 singles. At December 31, 1999, the Ensign Group's Canadian fleet of 141 drilling rigs made up 24 percent of the total Canadian industry fleet of 592 drilling rigs.

The Company's Canadian contract drilling divisions generated 20,071 operating days in 1999, compared to 18,176 operating days in 1998. The increase in operating days in 1999 reflects the acquisition of Artisan Corporation in May 1998 which accounted for 4,428 operating days in 1999 compared to 2,570 operating days in 1998.

The outlook for the Ensign Group's drilling business in 2000 is very strong following what was essentially a transitional year for the industry in 1999. The Canadian Association of Oilwell Drilling Contractors estimates that 14,500 wells will be drilled in western Canada in 2000, almost 40 percent more than in 1999. Rig utilization rates are expected to average between 60 and 70 percent, compared to 40 percent in 1999. This increased activity is being driven by continued high crude oil and natural gas commodity prices which are forecasted to remain strong throughout 2000.

Well Servicing

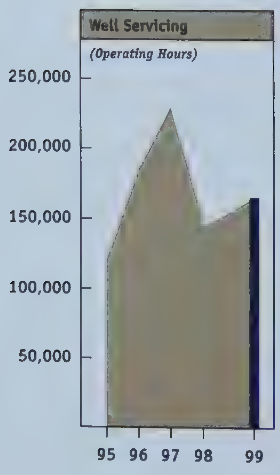
The Ensign Group is the third largest well servicing contractor in Canada, providing shallow to deep well servicing to crude oil and natural gas producers throughout most of the WCSB. During 1999, the Company's well servicing fleet grew from 115 well servicing rigs to 126 well servicing rigs through the acquisition of the assets of Badge Services Ltd. of Estevan, Saskatchewan. The Company also operated 13 coiled tubing units in 1999, unchanged from the prior year. For fiscal 1999, the Company's well servicing divisions recorded a utilization rate of 44.7 percent compared to 45.4 percent in 1998.

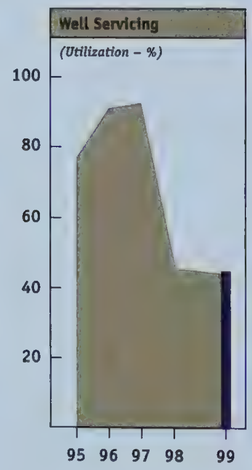
Canadian Rig Classification – Service Rigs

	Rockwell	Leyen	Badge	Continuous	Total	% of Fleet
Coiled tubing units	–	–	–	13	13	9%
Slant single	10	–	–	–	10	7%
Skid single	1	–	–	–	1	1%
Mobile single	3	9	–	–	12	9%
Mobile double	8	2	10	–	20	14%
Mobile single-double	36	36	–	–	72	52%
Medium double	6	–	–	–	6	4%
Heavy double	5	–	–	–	5	4%
Total	69	47	10	13	139	100%

The Company's well servicing operations are conducted through the Ensign Servicing Partnership, consisting of three divisions - Rockwell Servicing, Leyen Oil Well Servicing and Badge Services; and a coiled tubing division - Continuous Tubing. Through these divisions, the Ensign Group offers services in all facets of well servicing, including completions, abandonments, production workovers and bottom-hole pump changes. With a solid base of expertise in the well servicing industry, the Ensign Group is able to consistently provide customers with the best servicing solutions, no matter what the operational challenges.

Rockwell Servicing operates 69 well servicing rigs from operating stations located in Ardmore, Brooks, Grande Prairie and Red Deer, Alberta. Rockwell Servicing has the unique ability to offer its customers slant well servicing, a process that requires specialty equipment and a high level of crew expertise. This division operates 10 of the 33 slant well servicing rigs in the Canadian market, making it the second largest slant well servicing rig operator in Canada.





Leyen Oilwell Servicing is based in Lloydminster, Alberta and operates 47 well servicing rigs from its Lloydminster base and a station located in Provost, Alberta. This division's activities are concentrated in the heavy oil market of the WCSB which experienced increased activity during late 1999. Despite the widening of differentials during the year, the price of heavy oil increased along with the price of light crude, improving the economics associated with the production of heavy crude oil. Leyen is well positioned to capitalize on the continuing improvement in heavy oil fundamentals.

In August 1999, the Ensign Group acquired the well servicing assets of Badge Services Ltd., a private contractor based in Estevan, Saskatchewan. The transaction added 11 well servicing rigs to the Company's well servicing fleet, of which 10 are operated through Badge and one has been transferred to Rockwell. Equally important, the acquisition of the Badge assets provides the Ensign Servicing Partnership access to the southeastern Saskatchewan market which is expected to experience growing activity associated with light crude oil production.

Continuous Tubing, based in Brooks, Alberta, operates 13 coiled tubing units. The addition of coiled tubing units, primarily as a result of the May 1998 acquisition of Artisan Corporation, has enabled the Ensign Group to provide customers with an alternative well servicing technology and additional expertise regarding production optimization, cement squeezes, drillouts, new drills, abandonments and the setting of bridge plugs for shallower wells. Although coiled tubing units generally cost more to operate and maintain than conventional well servicing rigs, they are more efficient and mobile and have demonstrated their superiority in certain market niches. During the summer and fall months, this

division's primary markets are located in southern Alberta. During the winter months, operations are extended into northern Alberta and northeastern British Columbia.

Changing market conditions in 1999 presented many challenges to the well servicing divisions. Through a combination of innovation, expertise and cost control, all well servicing divisions maintained positive cash flow in 1999, despite the pressures of an over-supply situation. The Company's well servicing divisions experienced a 14 percent increase in operating hours in 1999 as a result of operating a larger service rig and coiled tubing fleet for a full 12 months and the addition of the Badge assets. Operating hours in 1999 totaled 164,875 hours in the Ensign Group's well servicing divisions compared to 144,078 hours for 1998.

To combat difficult market conditions associated with lower levels of crude oil and natural gas commodity prices, the Company relied once again on efficiency as a key element of its performance strategy. In early 1999, when activity levels were at their lowest, the Ensign Group operated only its most cost-efficient rigs and parked the less flexible rigs until industry activity improved or upon receipt of specific requests from customers. During the year, the Company also developed new training modules that are now being used to improve the knowledge base and rate of learning, and therefore efficiency, of new employees.

Manufacturing and Production Services

The Ensign Group has become a significant player in the manufacturing and production services sectors within the Canadian oilfield service industry through its ownership of Opsco Energy Industries. Acquired in 1998 as part of the acquisition of Artisan Corporation, Opsco is a leading provider of wireline, production testing, well optimization and underbalanced drilling services in western Canada. In addition, Opsco manufactures custom crude oil and natural gas production equipment.

Opsco operates 24 wireline units and 26 production testing units. Further, nine field crews operate 32 digital data acquisition systems, acoustic well sounding units and dynamometer units. Opsco combines skilled people and quality products to create cost savings and production efficiencies for customers by applying new technologies to challenging drilling projects.

In August 1999, the Ensign Group added to the operations of the Opsco division by purchasing the operating assets of ICE Drilling Systems Inc. These assets include eight underbalanced drilling packages and related assets and are being operated through the Opsco division under the name Enhanced Drill Systems.

Manufacturing

Through Opsco, the Ensign Group manufactures a wide range of crude oil and natural gas production equipment, with an emphasis on the natural gas side of the business, including separation and dehydration equipment, line heaters, production satellites and automatic pig launchers. The 40,000 square foot manufacturing facility, located in Calgary, Alberta, includes fabrication, sheet metal, sand blasting and paint shops.

Custom design and fabrication is Opsco's manufacturing division's primary area of expertise and allows the division to offer customers unique and site-specific products that command higher prices than traditional line-manufactured items.

Well Optimization

The well optimization division provides technical support for all of Opsco's field services, including completions, production and reservoir analysis. Opsco's well optimization staff offer targeted expertise in such areas as test design and supervision, well test analysis and basic well test courses.

Production Testing

With over 22 fully certified crews based throughout Calgary, Grande Prairie, Onoway and Lac La Biche, Alberta, Opsco offers a full range of services from field operations to technical reporting and evaluation services. Opsco supplies the crews, separator and heating equipment for the testing of crude oil and natural gas wells. All crew members are thoroughly trained in safety and the handling of hazardous materials as well as environmental protection procedures, giving customers the comfort level they demand for their work sites.

Wireline Services

Opsco's 24 wireline service units install and retrieve downhole instrumentation and operate mechanical downhole tools. Wireline stations are located in Red Deer, Sedgewick, Grande Prairie, Whitecourt, Edson and Fox Creek, Alberta; Moose Mountain, Saskatchewan; and Fort St. John, British Columbia. In February 2000, Opsco expanded its wireline operations through the acquisition of all the slick-line wireline assets of Halliburton Group Canada Inc. located in the Rainbow Lake area of northern Alberta.

Enhanced Drill Systems

Enhanced Drill Systems was formed in the third quarter of 1999 through the purchase of eight underbalanced drilling systems from ICE Drilling Systems Inc. These state-of-the-art-operating units contain nitrogen generation and compression equipment and surface control systems, which eliminate the need for nitrogen delivery to the well site. Although new to this specialty drilling sector, the Ensign Group expects to develop a dominant position in the industry by leveraging the strengths of its underbalanced equipment and personnel. Enhanced Drill Systems is based in Red Deer, Alberta.

UNITED STATES OILFIELD SERVICES

The Ensign Group, through its ownership of Caza Drilling Inc., is the second largest drilling contractor in the Rocky Mountain region of the United States. This area of the United States contains a number of crude oil and natural gas basins, but is primarily known for natural gas production.

Across the United States, land-based drilling activity in 1999 was at an all-time low, and the Rocky Mountain region was no exception. Rig utilization rates in the region averaged 25 to 30 percent, compared to much stronger utilization rates of 38 percent in 1998. Contributing to the weakness in the Rocky Mountain region were lower commodity prices for natural gas and higher than expected natural gas storage levels brought about by unseasonably warm winter weather that lasted well into the spring of 1999.

Despite this, the Rocky Mountain region remains an attractive operating area for the Ensign Group. Enhancements to the United States Rocky Mountain pipeline system have increased takeaway capacity to the strong consuming regions of the Midwest and northeastern United States. This has led to a narrowing of price differentials relative to the benchmark Henry Hub price for natural gas and serves to increase industry interest in the production of natural gas from the Rocky Mountain region.

Caza Drilling Inc.

Caza Drilling Inc., with its headquarters in Denver, Colorado, owns 46 out of a total of 270 drilling rigs currently available to crude oil and natural gas companies drilling in the Rocky Mountain region. Caza operates in seven States and serves all producing areas of the U.S. Rocky Mountain region. Caza presently only markets 30 of its 46 rigs, as demand and crew availability have been limited.

U.S. Rig Depth Capabilities

Depth (metres)	*Owned*	*% of fleet*
0 - 1,000	–	*0%*
1,001 - 2,000	–	*0%*
2,001 - 3,000	*31*	*67%*
3,001 - 4,000	*9*	*20%*
4,001 - 5,000	*6*	*13%*
5,001+	–	*0%*
Total	*46*	*100%*

Despite the United States land-based crude oil and natural gas drilling industry experiencing all-time low utilization rates in 1999, Caza Drilling demonstrated the strength of its operations by maintaining positive cash flow throughout the year. This division continues to build its reputation for operational capability and safety. Caza leverages superior technical knowledge of the Rocky Mountain region to complete projects on a well "footage" or "turnkey" basis, which can be more profitable than day-rate services.

During 1999, Caza drilled 287 wells, comprising 2.0 million feet (0.6 million metres), a decrease of 14 percent compared to 332 wells and 2.8 million feet (0.9 million metres) in 1998. Caza Drilling's rig utilization was 24.0 percent in 1999 compared to 37.6 percent in 1998.

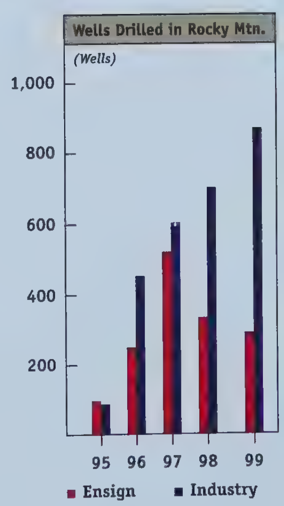
Expanded United States Operations

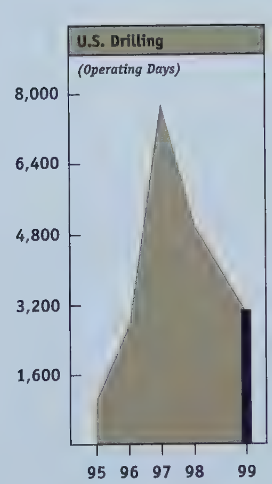
On March 10, 2000, Caza entered into a definitive agreement to acquire Gary Drilling Company ("Gary Drilling") of Bakersfield, California. Gary Drilling, through its 18 drilling rigs, operates primarily in the shallow crude oil market in the San Joaquin basin of California. The Gary Drilling acquisition will complement the Ensign Group's existing operations in the United States and provides the Company with an expanded platform for further growth.

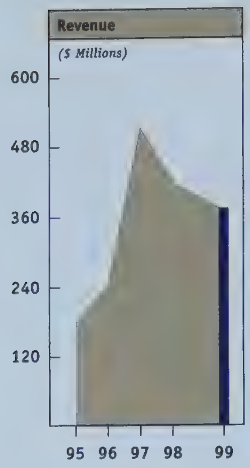
Financial Results

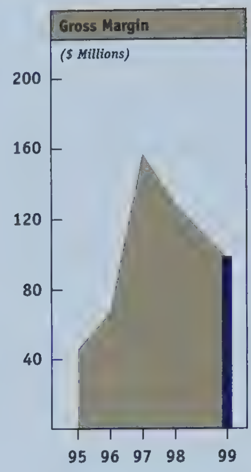
REVENUES AND OILFIELD SERVICES EXPENSES

($ millions)	***1999***	*1998*	*Change*	*%*
Revenue	***$372.3***	*$418.9*	*$(46.6)*	*(11)*
Oilfield services expenses	***(274.1)***	*(290.9)*	*(16.8)*	*(6)*
	$ 98.2	*$128.0*	*$(29.8)*	*(23)*
Gross margin	***26.4%***	*30.6%*	*(4.2)*	*(14)*









As a result of the decrease in the demand for the services provided by the Ensign Group primarily due to the collapse of oil prices throughout 1998 and the beginning of 1999, consolidated revenues dropped $46.6 million, or 11 percent, in 1999 to $372.3 million. On these revenues, the Ensign Group earned a gross margin of 26.4 percent in 1999 compared to 30.6 percent in 1998. Lower equipment utilization rates resulted in 1999 revenues dropping $39.5 million compared to 1998. The impact of lower revenue rates, associated with lower utilization rates, resulted in fiscal 1999 revenues decreasing $34.4 million compared to 1998. These decreases in 1999 were partially offset by the contribution associated with the increase in the Company's asset base due to the acquisition of Artisan Corporation in May 1998. In addition, 1998 revenues included $4.3 million of dividend income relating to the Company's investment in Western Rock Bit Company Limited. No corresponding revenue exists in fiscal 1999.

The much-publicized collapse in crude oil prices resulted in crude oil and natural gas producers postponing drilling and other oilfield service projects until a recovery in commodity prices improved the economics associated with the production of crude oil and natural gas. As a result, excess industry capacity became a significant factor in the fundamentals surrounding the operations of the Ensign Group and its efforts to maintain market share. This excess capacity translated into downward pressure on equipment utilization and oilfield service rates across the industry. The impact of decreased revenue rates was particularly felt in the Company's Canadian drilling divisions, accounting for $26.9 million of the $34.4 million decrease on a year-over-year basis. During 1999, revenue rates for the Ensign Group's Canadian drilling divisions averaged 12 percent lower than in 1998. Revenues from the Company's well servicing operations remained flat compared to 1998 as new revenue from the acquisition of the Badge assets and operating Continuous Tubing for a full year offset the effect of lower revenue rates.

Of the $39.5 million decrease in revenue attributable to lower utilization, $35.0 million relates to the Company's United States operations. As noted previously, utilization rates in the Rocky Mountain region of the United States experienced record lows, and Caza Drilling's utilization rate followed this trend, falling 13.6 percentage points to 24.0 percent.

Through the Ensign Group's commitment to control operating costs, the reduction in the 1999 gross margin was limited to 4.2 percentage points. Apart from labor and fuel, maintenance is the Company's largest operating expense. The Ensign Group continues to maintain its equipment to the highest industry standards, but is careful that maintenance expenditures are restricted to equipment that is operating, or is scheduled to operate in the near future. This strategy ensures that funds are not spent on

equipment with a low probability of working in the short term, and helps limit the impact of decreasing utilization and revenue rates in a low commodity price environment.

It is also the Ensign Group's goal to maintain complete rig packages and not to cannibalize equipment during periods of reduced activity. This strategy strengthens the Company's position and allows it to maximize the impact of increased industry activity on operating results.

DEPRECIATION EXPENSE

($ millions)	***1999***	*1998*	*Change*	*%*
Depreciation	***$ 22.7***	*$ 20.5*	*$ 2.2*	*11*

Depreciation expense for 1999 increased $2.2 million to $22.7 million. The increase is due to depreciating the assets acquired as part of the acquisition of Artisan Corporation for a full 12 months in 1999 compared to eight months in 1998.

GENERAL AND ADMINISTRATIVE EXPENSES

($ millions)	***1999***	*1998*	*Change*	*%*
General and administrative	***$ 19.3***	*$ 18.0*	*$ 1.3*	*7*

General and administrative expenses increased seven percent to $19.3 million in 1999 from $18.0 in 1998. The increase relates to the acquisition of Artisan Corporation in May 1998 and the impact of improved market prices for the Company's common shares on its management bonus structure. A portion of management bonuses is tied to the Company's share performance during the year. In 1999, the Company's shares increased from $13.50 per share at December 31, 1998 to $33.50 per share at December 31, 1999, resulting in an increase in management bonuses year over year. The Ensign Group remains diligent in its efforts to maintain a low fixed cost structure and compares favorably with its peers in the industry. The Company believes that a cyclical industry demands low fixed costs in order to ensure long-term profitability.

INTEREST EXPENSE

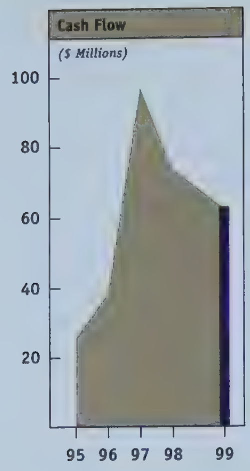
($ millions)	***1999***	*1998*	*Change*	*%*
Interest on long-term debt	***$ 3.0***	*$ 3.5*	*$ (0.5)*	*(14)*
Interest-other	***0.7***	*0.5*	*0.2*	*40*
	$ 3.7	*$ 4.0*	*$ (0.3)*	*(8)*

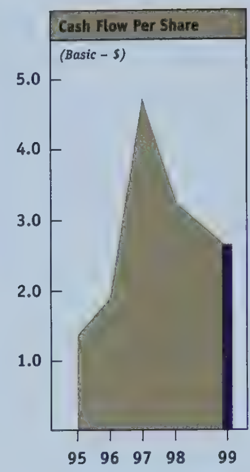
Total interest expense decreased eight percent to $3.7 million for 1999 compared to $4.0 million for 1998. Interest on long-term debt decreased $0.5 million to $3.0 million, as the long-debt was reduced by $16.4 million in 1999 through scheduled principal repayments. Operating interest increased $0.2 million as a result of financing activity associated with the significant capital acquisitions made during the latter part of 1999 and the start-up and operating costs associated with the resurgence of drilling activity in the fourth quarter of 1999.

INCOME TAXES

($ millions)	***1999***	*1998*	*Change*	*%*
Current income tax	***$ 12.7***	*$ 32.9*	*$(20.2)*	*(61)*
Future income tax	***10.0***	*3.7*	*6.3*	*170*
	$ 22.7	*$ 36.6*	*$(13.9)*	*(38)*
Effective rate	***43.2%***	*42.9%*	*0.3*	*1*

Income taxes decreased 38 percent to $22.7 million in 1999 from $36.6 million in 1998. The decrease is consistent with the decrease in pre-tax income for 1999





compared to 1998. In 1999, the Company adopted the liability method of accounting for income taxes in accordance with the Canadian Institute of Chartered Accountants new income tax accounting standard. As a result of the change in accounting policy, retained earnings at January 1, 1999 were reduced $30.7 million and the future income tax liability was increased $30.7 million. This adjustment primarily represents the income tax effect on the difference between the net book value of the Company's property and equipment and its corresponding tax base at January 1, 1999. The effective tax rate of 43.2 percent in 1999 increased slightly from 42.9 percent in 1998 because 1998 income includes $4.3 million of non-taxable dividend income relating to Ensign's investment in Western Rock Bit Company Limited and the higher contribution from the Company's United States operations which are taxed at lower United States tax rates.

DIVIDENDS

($ millions)	***1999***	*1998*	*Change*	*%*
Dividends	***$ 11.0***	*$ 10.0*	*$ 1.0*	*10*

The Ensign Group declared and paid dividends on Common Shares totaling $11.0 million ($0.4625 per share) in 1999 compared to $10.0 million ($0.45 per share) in 1998, an increase of 10 percent. In March 1999, the Company changed its dividend policy from semi-annual to quarterly. On March 10, 2000, Ensign declared a $3.0 million dividend ($0.125 per share) payable to shareholders on record at March 22, 2000. The dividends paid by the Company are determined based on the current level of profitability and are subject to the ongoing financial needs of the Ensign Group.

Financial Condition and Liquidity

WORKING CAPITAL AND CASH PROVIDED BY OPERATIONS

Cash provided by operating activities decreased 14 percent to $62.5 million ($2.63 per share) from $73.1 million ($3.24 per share) in 1998 as a result of the decrease in net income for 1999 compared to 1998. Working capital at December 31, 1999 of $37.8 million decreased $5.8 million from $43.6 million at December 31, 1998. The recovery of crude oil and natural gas commodity prices during 1999 resulted in a resurgence of fourth quarter oilfield service activity which is reflected in the significant increases in both year-end accounts receivable and accounts payable compared to the prior year. Included in December 31, 1999 working capital is $17.5 million of cash compared to $19.2 million at December 31, 1998.

INVESTING ACTIVITIES

During 1999, the Ensign Group's net capital expenditures totaled $45.4 million. Major acquisitions during 1999 included the acquisition of five drilling rigs for use in Canada, the underbalanced drilling assets of ICE Drilling Systems Inc. and the well servicing assets of Badge Services Ltd. In

addition, the Company converted two Canadian drilling rigs to self-moving and converted another deep drilling rig to an electric (SCR) rig. The Company's May 1998 acquisition of Artisan Corporation dominated investing activities in 1998.

FINANCING ACTIVITIES

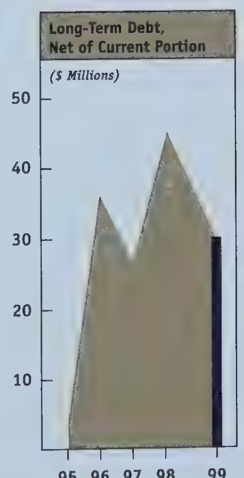
At December 31, 1999, Ensign had utilized $25.1 million of an available $48.0 million of its operating facility. This is an increase of $23.9 million over the $1.2 million utilized at the end of December 1998. The significant increase in the Company's operating facility results from the increase in fourth quarter oilfield service activity as well as the capital expenditures on acquisitions made during the latter part of 1999.

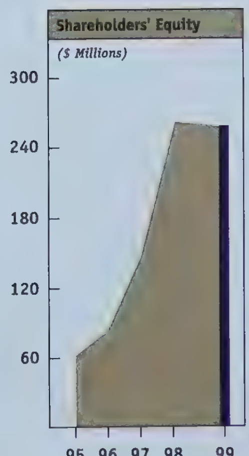
Long-term debt, including the current portion, was $44.8 million at December 31, 1999 compared to $61.2 million at December 31, 1998. The reduction of $16.4 million results from scheduled debt repayments during the year. The long-term debt to equity ratio of 0.17:1 at December 31, 1999 fell from 0.23:1 at December 31, 1998, despite the reduction in equity associated with the adoption of the Canadian Institute of Chartered Accountants new income tax accounting standard. Ensign Group's low debt levels will provide the Company with financial flexibility to pursue future growth opportunities.

In September 1998, the Company filed a Notice of Intention to make a Normal Course Issuer Bid (the "Bid") with the Toronto Stock Exchange. Management was of the opinion that the market price for the Company's Common Shares did not reflect the underlying value of the Company. Accordingly, in October 1998, the Company repurchased 35,000 Common Shares at an average price of $12.64 per share. In February 1999, the Company repurchased an additional 10,000 Common Shares under the provisions of the Bid at an average price of $12.25. In accordance with the terms of the Bid, all Common Shares repurchased by the Company were subsequently cancelled. During 1999, the Company issued 119,000 Common Shares at an attributed value of $4.1 million as partial consideration for the acquisition of oilfield services assets. In 1998, the Company issued 2.6 million Common Shares with an attributed value of $72.7 million as partial consideration for all of the issued and outstanding shares of Artisan Corporation. During 1999, $2.8 million (1998 - $2.3 million) was received from the exercise of stock options by Company employees.

Risks and Uncertainties

The Ensign Group derives its revenue by providing oilfield services to crude oil and natural gas exploration and production companies in North America. The demand for the services provided by the Ensign Group is directly related to the operational and





financial strength of the Company's customers. The exploration and development budgets of the Ensign Group's customers are directly affected by fluctuating crude oil and natural gas prices.

Lower commodity prices have a direct impact on the ability of the Company's customer to generate cash flow, which in turn impacts the demand these customers have for the services provided by the Ensign Group. Factors that impact the price of crude oil and natural gas are beyond the control of the Ensign Group, and therefore represent an area of significant uncertainty for the Company. In addition, fluctuating commodity prices can have a negative impact on customers' ability to discharge their obligations through normal business operations. The Ensign Group has been very proactive in its approach to credit management and has devoted significant resources to the implementation of policies and procedures to mitigate credit risk.

The Ensign Group is faced with a number of other uncertainties during the normal course of its day-to-day operations. The Company operates in an industry that is subject to legislation governing environmental and safety matters, and to unpredictable and uncontrollable weather patterns which can affect the ability of the Company to provide contracted services in remote locations. In addition, the Company is exposed to fluctuations in the Canadian/United States exchange rate associated with the translation of the financial statements of the Company's United States operations and interest rates. The Ensign Group continually monitors all areas of risk to help ensure that its exposure to these risks falls within acceptable parameters as determined by management.

The Ensign Group carries adequate levels of insurance to protect the Company in the unlikely event of the destruction of or damage to its property and equipment. Public liability insurance is also maintained at prudent levels to limit exposure in the event of unforeseen incidents. A comprehensive review of the Company's insurance coverage is completed periodically to ensure that the risk of loss is maintained within acceptable levels.

Outlook

Improved crude oil and natural gas commodity prices have had a positive impact on the cash flow and financial position of exploration and production companies, the Ensign Group's customers. As expected, these improved cash flows have resulted in improved Canadian oilfield service activity levels as indicated by the active rig count in Canada in the first quarter of 2000. While activity levels in the United States have lagged those in Canada, the improved outlook for natural gas should result in improved year-over-year activity levels for the Company's United States drilling division as the Rocky Mountain region exits its seasonally low period. While there still exists a large amount of volatility with respect to crude oil and natural gas commodity prices, the supply and demand fundamentals for crude oil and natural gas appear very favorable. The Ensign Group is well financed and is well situated to take advantage of increased oilfield service activity levels associated with such a positive environment.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

March 14, 2000

The consolidated financial statements and other information contained in the annual report are the responsibility of the management of the Company. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles consistently applied, using management's best estimates and judgements, where appropriate.

Preparation of financial statements is an integral part of management's broader responsibilities for the ongoing operations of the Company. Management maintains a system of internal accounting controls to ensure that properly approved transactions are accurately recorded on a timely basis and result in reliable financial statements. The Company's external auditors are appointed by the shareholders. They independently perform the necessary tests of the Company's accounting records and procedures to enable them to express an opinion as to the fairness of the consolidated financial statements, in conformity with generally accepted accounting principles in Canada.

The Audit Committee, which is comprised of outside Directors, meets with management and the Company's external auditors to review the financial statements and reports on them to the Board of Directors. The consolidated financial statements have been approved by the Board of Directors.

Selby Porter, *President*

Glenn Dagenais, *Vice President Finance and Chief Financial Officer*

AUDITORS' REPORT

March 14, 2000

To the Shareholders of Ensign Resource Service Group Inc.

We have audited the consolidated balance sheets of Ensign Resource Service Group Inc. as at December 31, 1999 and 1998 and the consolidated statements of income and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1999 and 1998 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Calgary, Alberta

CONSOLIDATED BALANCE SHEETS

As at December 31, 1999 and 1998 (in thousands of dollars – except per share data)

	1999	1998
ASSETS		
Current assets		
Cash	$ 17,528	$ 19,204
Accounts receivable	121,097	73,221
Inventory and other	13,687	12,394
	152,312	104,819
Property and equipment (note 3)	336,112	310,156
Other – at cost	1,044	1,345
	$ 489,468	$ 416,320
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	$ 74,463	$ 43,558
Operating line of credit (note 4)	25,094	1,245
Current portion of long-term debt (note 4)	15,000	16,379
	114,557	61,182
Long-term debt – net of current portion (note 4)	29,805	44,823
Future income taxes (note 8)	88,337	48,414
	232,699	154,419
SHAREHOLDERS' EQUITY		
Capital stock (note 5)	100,585	93,835
Retained earnings	156,184	168,066
	256,769	261,901
	$ 489,468	$ 416,320

Approved by the Board of Directors

Director

Director

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

For the years ended December 31, 1999 and 1998 (in thousands of dollars – except per share data)

	1999	1998
Revenue		
Oilfield services	**$ 372,322**	$ 418,919
Expenses		
Oilfield services	**274,082**	290,920
Depreciation	**22,733**	20,516
General and administrative	**19,267**	18,014
Interest on long-term debt	**3,045**	3,534
Interest – other	**653**	536
	319,780	333,520
Income before income taxes	**52,542**	85,399
***Income taxes** (note 8)*		
Current	**12,749**	32,862
Future	**9,956**	3,747
	22,705	36,609
Net income for the year	**29,837**	48,790
Retained earnings – beginning of year	**168,066**	129,271
Adjustment of retained earnings at beginning of year as a result of the adoption of the liability method of accounting for future income taxes (note 8)	**(30,708)**	–
Retained earnings – beginning of year, as restated	**137,358**	129,271
Dividends	**(11,011)**	(9,995)
Retained earnings – end of year	**$ 156,184**	$ 168,066
***Net income per share** (note 5)*		
Basic	**$ 1.26**	$ 2.16
Fully diluted	**$ 1.23**	$ 2.12

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 1999 and 1998 (in thousands of dollars – except per share data)

	1999	1998
CASH PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Net income for the year	$ 29,837	$ 48,790
Items not affecting cash		
Depreciation	22,733	20,516
Future income taxes	9,956	3,747
Cash provided by operating activities before the change in non-cash working capital	62,526	73,053
Decrease in non-cash working capital	5,585	5,665
	68,111	78,718
INVESTING ACTIVITIES		
Acquisition (note 6)	–	(67,574)
Net (purchase) disposal of property and equipment	(45,380)	2,175
Other	301	1,306
	(45,079)	(64,093)
FINANCING ACTIVITIES		
Net (decrease) increase in long-term debt	(16,397)	9,873
Issue of capital stock	2,700	1,836
Dividends paid	(11,011)	(9,995)
	(24,708)	1,714
(DECREASE) INCREASE IN CASH DURING THE YEAR	(1,676)	16,339
CASH – BEGINNING OF YEAR	19,204	2,865
CASH – END OF YEAR	$ 17,528	$ 19,204
CASH FLOW PER SHARE (note 5)		
Basic	$ 2.63	$ 3.24
Fully diluted	$ 2.54	$ 3.14
Interest paid during the year	$ 3,224	$ 3,604
Income taxes paid during the year	$ 14,193	$ 29,622

For the purpose of the cash flow per share calculations, cash flow is defined as "Cash provided by operating activities before the change in non-cash working capital".

1 Basis of Consolidation

The accompanying consolidated financial statements include the accounts of Ensign Resource Service Group Inc. and its wholly owned subsidiaries and partnership. The companies and partnership carry on the business of providing oilfield services to the oil and natural gas industry.

2 Significant Accounting Policies

Income from contracts

Income from contracts is recorded using the percentage of completion method. Losses are provided for in full when first determined.

Inventory

Inventory, comprised of spare rig parts and equipment, is recorded at the lower of cost and replacement cost.

Property and equipment

Property and equipment are recorded at cost. Depreciation is based on the estimated useful lives of the assets as follows:

Rigs and equipment	*15 years*	*straight-line (residual 20%)*
Buildings	*20 years*	*straight-line*
Automotive equipment	*3 years*	*straight-line*
Office furniture and shop equipment	*5 years*	*straight-line*

Foreign currency translation

Financial statements of the Company's self-sustaining United States operations are translated to Canadian dollars using the exchange rate in effect at the balance sheet date for all assets and liabilities, and at average rates of exchange during the period for revenues and expenses.

Income taxes

The Company follows the liability method of accounting for income taxes in accordance with the Canadian Institute of Chartered Accountants new income tax standard. Under this method, income tax liabilities and assets are recognized for the estimated tax consequences attributable to differences between the amounts reported in the financial statements and their respective tax bases, using enacted income tax rates. The effect of a change in income tax rates on future income tax liabilities and assets is recognized in income in the period that the change occurs.

3 PROPERTY AND EQUIPMENT

	1999	1998
Land and buildings	$ 5,074	$ 4,806
Rigs and related equipment	401,205	355,013
Automotive and other equipment	14,187	12,439
	420,466	372,258
Accumulated depreciation	(84,354)	(62,102)
	$ 336,112	$ 310,156

Property and equipment with a net book value of $72,533 (1998 – $72,492) has no tax basis.

4 LONG-TERM DEBT

	1999	1998
Bank term loan, at prime or bankers' acceptance rate plus 0.800% stamping fee	$ 44,805	$ 59,823
Other	–	1,379
	44,805	61,202
Current portion	(15,000)	(16,379)
	$ 29,805	$ 44,823

At December 31, 1999, the Company had available operating lines of credit, at the bank prime interest rate or bankers' acceptance rate plus 0.625% stamping fee, totalling $48,000 (1998 – $46,000) of which $25,094 (1998 – $1,245) was utilized at year end.

Collateral for the bank term loan and the operating line of credit consists of a general security agreement, including a floating charge on certain assets and an assignment of insurance on certain property and equipment.

Principal payments on long-term debt are:

Year	
2000	$ 15,000
2001	$ 15,000
2003	$ 14,805

5 CAPITAL STOCK

a) Authorized

Unlimited common shares

Unlimited preferred shares, issuable in series

b) Outstanding

	1999		1998	
	Number of Shares	Amount	Number of Shares	Amount
Common shares				
Balance – beginning of year	**23,568,962**	**$ 93,835**	20,742,749	$ 19,321
Issued for the following:				
Acquisition of Artisan Corporation	**–**	**–**	2,642,861	72,678
Acquisition of oilfield services assets	**119,118**	**4,050**	–	–
Exercise of stock options	**335,585**	**2,823**	218,352	2,279
Purchased per Normal Course Issuer Bid	**(10,000)**	**(123)**	(35,000)	(443)
Balance – end of year	**24,013,665**	**$100,585**	23,568,962	$ 93,835

c) Options

The Company may grant options to its employees for up to 1,860,639 shares of common stock. The exercise price equals the market price of the Company's stock on the date of granting. Stock options granted vest evenly over a period of five years. A summary of the status of the Company's stock option plan as of December 31, 1999 and 1998, and the changes during the years ending on those dates is presented below.

	1999		1998	
	Number of Options	Weighted-Average Exercise Price	Number of Options	Weighted-Average Exercise Price
Outstanding – beginning of year	**1,489,664**	**$ 14.36**	985,590	$ 11.74
Granted	**100,000**	**$ 29.50**	1,060,277	$ 20.37
Exercised	**(335,585)**	**$ 8.41**	(218,352)	$ 10.26
Forfeited	**(124,700)**	**$ 14.62**	(337,851)	$ 28.23
Outstanding – end of year	**1,129,379**	**$ 17.44**	1,489,664	$ 14.36
Exercisable at December 31	**320,729**	**$ 19.58**	413,664	$ 15.69

	Options Outstanding			Options Exercisable	
Exercise Price	Options Outstanding	Average Vesting Remaining	Weighted-Average Exercise Price	Options Exercisable	Weighted-Average Exercise Price
$3.25 to $14.00	603,589	2.0	$ 11.04	118,439	$ 7.64
$14.50 to $27.50	305,857	1.3	$ 19.40	111,457	$ 20.08
$29.50 to $36.60	219,933	1.6	$ 32.27	90,833	$ 34.53
	1,129,379	1.7	$ 17.44	320,729	$ 19.58

d) Common share dividends

During 1999, the Company paid dividends of $11,011 (1998 – $9,995), being $0.4625 per common share (1998 – $0.45). A quarterly dividend of $3,023, being $0.125 per common share, was declared on March 10, 2000 for payment on March 31, 2000.

e) Normal course issuer bid

On September 29, 1998, the Company filed a Notice of Intention to make a Normal Course Issuer Bid (the "Bid") with the Toronto Stock Exchange. Under the provisions of the Bid, the Company purchased 10,000 common shares during 1999 at an average price of $12.25 per share and 35,000 common shares in 1998 at an average price of $12.64 per share. In both instances, the shares were subsequently cancelled.

f) Net income per share and cash flow per share

Net income per share and cash flow per share have been calculated on the basis of the weighted average number of common shares outstanding for the year which amounted to 23,750,429 shares (1998 – 22,581,627 shares). Fully diluted net income per share and fully diluted cash flow per share have been calculated, assuming the exercise of stock options resulting in an average number of common shares of 25,105,244 shares (1998 – 23,724,179 shares).

6 ACQUISITION

During 1998, the Company completed the acquisition of all the issued and outstanding shares of Artisan Corporation ("Artisan"). Artisan provided oilfield services in the areas of drilling, well servicing, manufacturing and production testing. This acquisition has been accounted for by the purchase method with the results of operations of Artisan included in the consolidated financial statements from the date of acquisition (May 11, 1998). The details of the acquisition are as follows:

Net assets acquired at assigned values	
Working capital	*$ 10,625*
Property and equipment	*152,348*
Long-term debt	*(14,460)*
Future income taxes	*(8,261)*
	$ 140,252
Consideration	
Common shares	*$ 72,678*
Cash	*67,574*
	$ 140,252

7 SEGMENTED INFORMATION

The Company operates in two geographic segments within one industry segment. Oilfield services are provided in both Canada and the United States. The amounts related to each segment are as follows:

	1999		
	Canadian Oilfield Services	United States Oilfield Services	Total
Revenue	**$314,452**	**$ 57,870**	**$372,322**
Property and equipment – net	**$321,495**	**$ 14,617**	**$336,112**

	1998		
	Canadian Oilfield Services	United States Oilfield Services	Total
Revenue	$ 322,409	$ 96,510	$ 418,919
Property and equipment – net	$ 292,340	$ 17,816	$ 310,156

8 INCOME TAXES

In 1999, the Company retroactively adopted the liability method of accounting for income taxes in accordance with the Canadian Institute of Chartered Accountants new income tax standard. The effect of the change in accounting policy on the 1999 consolidated financial statements was to increase (decrease) the following:

Retained earnings at January 1, 1999	$ (30,708)
Net income	$ 1,757
Future income taxes at December 31, 1999	$ 28,951

The provision for future income taxes arises from temporary differences in the recognition of revenues and expenses for income tax and accounting purposes. The temporary differences comprising the future income tax liability as at December 31, 1999 are as follows:

	1999	1998
Property and equipment	**$ 195,880**	$ 173,443
Income tax losses	**(3,339)**	(4,321)
Other	**2,877**	242
	$ 195,418	$ 169,364
Future income taxes at expected tax rate	**$ 88,337**	$ 48,414

The future income tax balance of $48,414 at December 31, 1998 does not reflect the adjustment of $30,708 which was made effective January 1, 1999 as a consequence of adopting the Canadian Institute of Chartered Accountants new income tax standard.

The provision for income tax, including future income taxes, differs from the expected combined federal and provincial taxes as follows:

	1999	1998
Income before income taxes	$ 52,542	$ 85,399
Income tax rate	45%	45%
Expected income tax provision	23,644	38,430
Increase (decrease) resulting from:		
Non-taxable dividend income	(27)	(2,065)
Non-deductible depreciation	–	545
Non-deductible subsistence payments	–	1,260
U.S. – lower effective tax rate	(384)	(812)
Other	(528)	(749)
	$ 22,705	$ 36,609
Effective tax rate	43.2%	42.9%

9 FINANCIAL INSTRUMENTS

The Company's financial instruments as at December 31, 1999 included cash, accounts receivable, accounts payable and accrued liabilities, and the operating line of credit. Due to the current nature of these items, carrying amounts are considered to approximate fair value.

Also, the Company's financial instruments as at December 31, 1999 included long-term debt. All of this debt is floating at the prime rate and, accordingly, the carrying amount is considered to approximate fair value.

The Company is exposed to credit risk in relation to its accounts receivable at December 31, 1999. As substantially all of the Company's customers are relatively well financed and established oil and natural gas companies, the level of credit risk is considered by management to be minimal.

10 PRIOR YEAR AMOUNTS

Certain prior year amounts have been reclassified to conform to the current year's presentation.

THE COMPANY

Ensign Resource Service Group Inc. was incorporated on March 31, 1987 pursuant to the provisions of the Business Corporations Act (Alberta). Pursuant to a prospectus, on December 15, 1987, the Company became a reporting issuer in the Province of Alberta.

SUBSIDIARIES

The following table sets forth the principal operating subsidiaries of the Company, the percentage of shares owned, directly or indirectly, by the Company and the jurisdiction of incorporation or continuance of the subsidiaries as of April 14, 2000:

Name of Subsidiary	*Jurisdiction of Incorporation or Continuance*	*Percentage of shares beneficially owned or controlled by the company*
Artisan Corporation	*Alberta*	*100%*
Badge Services Inc.	*Alberta*	*100%*
Caza Drilling Inc.	*Colorado*	*100%*
Champion Drilling Inc.	*Alberta*	*100%*
Continuous Tubing Inc.	*Alberta*	*100%*
Ensign Drilling Inc.	*Alberta*	*100%*
Gary Drilling Company	*California*	*100%*
Leyen Oil Well Servicing Ltd.	*Saskatchewan*	*100%*
Opsco Energy Industries Ltd.	*Alberta*	*100%*
Rockwell Servicing Inc.	*Alberta*	*100%*
Tri-City Drilling (1968) Ltd.	*Alberta*	*100%*

RECENT ACQUISITIONS

August 1999	*Acquired the underbalanced drilling assets of ICE Drilling Systems Inc.*
August 1999	*Acquired 11 well servicing rigs from Badge Services Ltd.*
September 1999	*Acquired two drilling rigs from Double Eagle Drilling Ltd.*
November 1999	*Acquired two drilling rigs from Ivanhoe Energy Inc.*
December 1999	*Acquired one drilling rig from Slate Drilling Ltd.*
February 2000	*Acquired slick-line wireline assets located in Rainbow Lake, Alberta from Halliburton Group Canada Inc.*
April 2000	*Acquired Gary Drilling Company, which owns and operates 18 drilling rigs based in Bakersfield, California, United States*

DESCRIPTION OF THE BUSINESS

All of the Company's revenue is derived from the provision of oilfield services supplied through 10 divisions, which include the subsidiaries listed previously. The following identifies the principal operating divisions of the Company and their fleet size as at April 14, 2000.

Division	*Fleet size*	*Area of operation*
Champion Drilling	*25 drilling rigs*	*Western Canada*
Ensign Drilling	*81 drilling rigs*	*Western Canada*
Tri-City Drilling	*35 drilling rigs*	*Western Canada*
Caza Drilling Inc.	*46 drilling rigs*	*Rocky Mountain region, United States*
Gary Drilling Company	*18 drilling rigs*	*California, United States*
Leyen Oilwell Servicing	*47 well servicing rigs*	*Western Canada*
Rockwell Servicing	*70 well servicing rigs*	*Western Canada*
Badge Services	*10 well servicing rigs*	*Western Canada*
Continuous Tubing	*13 coiled tubing units*	*Western Canada*
Opsco Energy Industries		*Western Canada*

Rockwell Servicing, Leyen Oilwell Servicing and Badge Services carry on business jointly through the Ensign Servicing Partnership.

10 YEAR FINANCIAL INFORMATION

($000s, except per share data and ratios)	**1999**	1998	1997
Revenue	**372,322**	418,919	517,500
Gross Margin	**98,240**	127,999	158,240
Gross Margin % of Revenue	**26.39%**	30.55%	30.58%
Depreciation	**22,733**	20,516	12,493
Net Income (Loss)	**29,837**	48,790	68,035
Net Income (Loss) Per Share			
Basic	**1.26**	2.16	3.30
Fully Diluted	**1.23**	2.12	3.25
Cash Flow	**62,526**	73,053	96,716
Cash Flow Per Share			
Basic	**2.63**	3.24	4.69
Fully Diluted	**2.54**	3.14	4.57
Net Capital Expenditures (Disposals) – Excluding Acquisitions	**45,380**	(2,175)	50,437
Working Capital (Deficit)	**37,755**	43,637	29,186
Long-Term Debt, Net of Current Portion	**29,805**	44,823	26,518
Shareholders' Equity	**256,769**	261,901	148,592
Long-Term Debt to Equity	**0.2:1**	0.2:1	0.2:1
Weighted Average Common Shares Outstanding	**23,750,429**	22,581,627	20,615,674
Closing Share Price, December 31	**33.50**	13.50	34.60

QUARTERLY FINANCIAL INFORMATION

Quarter Ended (unaudited)	**1999**				1998			
($000s, except per share data)	**Dec 31**	**Sept 30**	**Jun 30**	**Mar 31**	Dec 31	Sept 30	Jun 30	Mar 31
Revenue	**130,350**	**92,787**	**44,336**	**104,849**	82,456	87,168	87,655	161,640
Net Income	**12,695**	**5,526**	**607**	**11,009**	8,726	6,972	8,053	25,039
Net Income Per Share								
Basic	**0.53**	**0.23**	**0.03**	**0.47**	0.37	0.30	0.36	1.20
Fully Diluted	**0.52**	**0.23**	**0.03**	**0.45**	0.37	0.30	0.35	1.18
Cash Flow	**20,435**	**14,277**	**6,289**	**21,525**	15,152	14,231	12,733	30,937
Cash Flow Per Share								
Basic	**0.85**	**0.60**	**0.27**	**0.91**	0.64	0.60	0.57	1.49
Fully Diluted	**0.82**	**0.58**	**0.27**	**0.87**	0.63	0.59	0.55	1.45

1996	1995	1994	1993	1992	1991	1990
245,429	180,665	174,940	92,715	41,341	33,503	16,884
67,907	46,216	46,606	18,886	8,647	6,515	2,296
27.67%	25.58%	26.64%	20.37%	20.92%	19.45%	13.60%
6,430	4,964	3,412	2,213	1,407	1,375	693
25,828	17,148	19,165	8,258	3,438	1,361	(2,096)
1.27	0.89	1.06	0.49	0.23	0.10	(0.24)
1.26	0.87	0.95	0.43	0.21	0.09	–
38,176	25,895	25,703	13,552	4,709	2,878	(551)
1.88	1.36	1.44	0.82	0.34	0.21	(0.06)
1.83	1.30	1.26	0.71	0.28	0.17	–
83,185	5,580	28,352	6,990	4,850	7,433	11,773
(4,164)	14,378	(1,049)	1,014	(562)	(1,161)	(1,624)
36,132	3,951	6,876	6,140	8,343	7,066	4,897
84,722	62,009	46,825	27,749	16,948	11,563	10,124
0.4:1	0.1:1	0.1:1	0.2:1	0.5:1	0.6:1	0.5:1
20,319,543	19,004,184	17,874,053	16,488,678	13,813,997	13,738,594	8,506,614
25.25	7.00	5.00	5.63	1.45	1.00	–

SHARE TRADING SUMMARY

For the Three Months Ended	High ($)	Low ($)	Close ($)	Volume	Value ($)
1999					
March 31	**19.65**	**13.00**	**18.50**	**5,386,456**	**74,309,207**
June 30	**30.20**	**16.70**	**29.65**	**5,979,245**	**143,608,043**
September 30	**38.45**	**29.00**	**32.45**	**4,328,723**	**148,671,686**
December 31	**35.75**	**27.75**	**33.50**	**4,004,045**	**124,822,239**
Total				**19,698,469**	**491,411,175**
1998					
March 31	35.80	23.00	32.75	5,656,760	158,736,672
June 30	34.05	23.50	25.00	3,268,592	97,301,813
September 30	25.95	11.50	15.00	7,552,671	134,822,464
December 31	19.50	12.50	13.50	6,649,024	97,553,017
Total				23,127,047	488,413,966

OPERATING MANAGEMENT

CHAMPION DRILLING

Joe Hemsing
General Manager

Keith Mattson
Drilling Superintendent

Darryl Maser
Drilling Superintendent

Paul Fitton
Field Superintendent

Dean Ulmer
Safety and Personnel

Linda Brooker
Chief Accountant

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Bob Geddes
Vice President and
Chief Operating Officer

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Vice President – Operations

Earle Routly
Vice President – Drilling

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Sales and Marketing Director

Rick Simonton
Contracts Manager

Bob Zanusso
Operations Manager

Dave Fyhn
Manager Administration

Paul Meade-Clift
Operations Engineering Manager

Steve Matthews
Performance Drilling Manager

Wayde Barker
Drilling Superintendent

Manfred Behnke
Drilling Superintendent

David Surridge
Drilling Superintendent

Dale Leitner
Drilling Superintendent

Rick Mann
Drilling Superintendent

Rick Vanee
Drilling Superintendent

Wayne Zandee
Drilling Superintendent

Rob Wilman
Safety Coordinator

Ralph Cock
Equipment Manager

Hank VanDrunen
Shop Manager

Cindy Hames
Personnel Manager

Walter Hopf
Field Safety Coordinator

Don Juska
Field Superintendent

Peri Kimber
Operations Administrator

Jim Campbell
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Gregg Lindstrom
Sales Representative

Herb McAleenan
Sales Representative

Ed Wylie
Sales Representative

Tom McDonald
Business Manager

Arnet Pachal
Materials Coordinator

Judy Selby
Contracts Administrator

Joe Brlekovich
Maintenance Superintendent

Ron Pettapiece
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Donna Conley
Chief Accountant

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Rose Marie Kody
General Manager

Hans Jandl
Drilling Superintendent

Ian Mossop
Drilling Superintendent

Mike Przysiezny
Drilling Superintendent

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Operations and Contracts

Tom Schledwitz
General Manager –
Operations and Engineering

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Controller

Hugh Giberson
Drilling Manager

Jim McCathron
Drilling Manager

Jeff Salen
Drilling Manager

Mel Curtis
Drilling Superintendent

Dan Welschmeyer
Safety Coordinator

Larry Lorenz
Equipment Manager

OPERATING MANAGEMENT

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Managing Director

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Area Manager

Troy Azlin
Drilling Superintendent

Brian Watts
Drilling Superintendent

Les Christian
Yard Manager

Cary Nikkel
Controller

Pete McMillan
Administration

Terry Ellis
Regulatory Affairs

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Tim Huber
Station Manager

Jerry Mehler
Field Superintendent

Brian Crossman
Sales Representative

CONTINUOUS TUBING

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Lyndon Irving
Operations Manager

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Field Superintendent

Jim Tomlinson
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Field Safety Coordinator

Vern McKinnon
Shop Manager

Emil Wark
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Barren Graham
Field Superintendent Bonnyville

Miles Kosteriva
Field Superintendent Kitscoty

Roger Snider
Field Superintendent Wainwright

Jim Stevenson
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Lyndon Irving
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Field Superintendent Red Deer

Abe Shihinski
Field Superintendent Red Deer

Rodger Field
Field Supervisor Brooks

Ed McCormick
Field Superintendent Brooks

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Ashraf Rajabali
Manufacturing Manager

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James B. Howe [1,2,3]
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Bragg Creek Financial
Consultants Ltd.

Donald Jewitt [1,2]
President
Veteran Resources Inc.

Len Kangas [2]
Independent Businessman

Selby Porter
President
Ensign Resource Service Group Inc.

John Schroeder [1,3]
Chief Financial Officer
Parkland Industries Ltd.

George S. Ward
Independent Businessman

Committee Members
[1] Audit
[2] Corporate Governance
[3] Compensation

CORPORATE MANAGEMENT

N. Murray Edwards
Chairman

Selby Porter
President

Glenn Dagenais
Vice President Finance and
Chief Financial Officer

Tom Medvedic
Treasurer

Bruce Moyes
Corporate Controller

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The Toronto Stock Exchange
Symbol: ESI

TRANSFER AGENT

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